NATIONAL ECONOMY

AN OUTLINE
OF PUBLIC ADMINISTRATION

BY

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PREFACE

THE Newmarch Lectures here published were delivered at University College, London, in November and December 1916.

William Newmarch devoted his life outside his business of banking to Economics, Statistics, and Finance. His great desire was to spread "an increasing appreciation of the importance" of these studies in their application to public and private business; and on his death his friends endowed these memorial Lectures with that object. The Lectures are not intended to overlap the regular teaching of the College, or to expound theory, but rather by precept and illustration to encourage the study of the social sciences as bearing upon life and practice. Their propagandist character is shown by the fact that they are open to the public without fee or formality.

These Lectures are therefore rather a tract than a treatise. Designed to attract and retain the attention of listeners, they are neither as grave, concise, or complete as if they had been six essays

of equal length destined for study in print, where iteration and reiteration, anecdote and illustration, may well appear to be serious defects. Many requests for the publication of the Lectures have reached me, especially from British officials overseas. After much hesitation whether I should rewrite the Lectures in a more adequate and greatly enlarged form, I have decided to print them as they were originally given, and to defer the publication of a more serious volume.

It fell to me in 1892 to deliver the Newmarch Lectures upon "The Expenditure of the Working Classes in the United Kingdom," and in 1893 upon "Workmen's Budgets in Europe and the United States." Scientific study of Real as opposed to Money Wages appeared to me then as since to be a matter of prime importance. How little is still understood upon this subject is shown by the ill-informed and frequently mischievous homilies which abound upon the economy of the labouring classes, their food habits, and their supposed "prosperity" and "extravagance" since the outbreak of War.

To pass from Family Budgets to the National Budget, from the spending of private income to the spending of public income, is but to turn from one chapter to another of the Consumption of Wealth—the great unexplored region of economics. Generations of admiring readers have lingered over such phrases as "The magic of property turns sands into

gold." The question "Into what shall the gold be turned?" is one upon the answer to which the future welfare of society largely depends. Self-interest is wide-awake in the race for wealth through increased production, and in the scramble for wealth in sharing the produce between the agents in production. But Consumption, which is the end of wealth, is little influenced by competition, as we understand it in the theories of production and distribution. The consumption of individuals and of governments is largely determined by custom, habit, fashion, and imitation, somewhat unconsciously by the competition of one need or aspiration with another, but depends in the last resort—when the line of imperious necessity has been passed—upon knowledge and character. The first essential clearly is to know the facts as they are. Statistics must be understood. In the distressful period which followed the last Great War, Ministers pointed to the greatly increased consumption of candles as evidence that the necessaries of life were not lacking to people who could afford to spend more upon comforts, if not luxuries, of this kind. Joseph Hume—to whose credit I am glad to say something—showed that the weavers, cobblers, and other craftsmen were now compelled to work long beyond the hours when their cottages were formerly darkened for sleep. The statistics used to disprove distress were in reality crushing proof of its existence.

With the increasing tendency of Governments to absorb a larger share of the national resources the study of Government expenditure becomes ever more important. The French humorist whose political platform was "More from the Treasury and less from the taxpayer" was perhaps building better than he knew if Governments can achieve greater results at less expense. It must, however, be understood that these Lectures are not a criticism, still less a description, of British administration in particular. Examples have been occasionally drawn from well-known features of the British system as a more direct and intelligible appeal to those who attended the Lectures. But although official permission was sought and obtained for their delivery, the Lectures contain no official information and have no official authority.

So much interest has been taken in the references to the American Commission that it may be convenient to state here that, so far as I am aware, there is no European literature upon the subject. The Commission's method is, after personal study of a Department, to draw up a sketch of its functions, organisation, and methods, to settle this descriptive outline with the Department itself, and upon this agreed basis of fact to build its constructive suggestions. The Reports will be found in the Library of the British Museum, Press Mark AS 10. For copies of the Reports and Circulars of the

Commission my thanks are due to Professor S. M. Lindsay of Columbia University.

With the American plan may be compared the recent Royal Rescript to the Prussian Diet announcing the appointment of two experienced officials to reform the Public Administration. In order to provide a basis for reform that will be uniform and free from the influence of particular departments the Commissioners are given full powers to select their assistants. Both Commissioners and assistants are free to disregard the instructions of their superiors. The text of the Rescript is worth quoting :

" The historic construction of the State administration no longer takes due account in all cases of the changed economic conditions. It is in many cases too complicated, and consequently demands a larger personnel than will be available after the War. The experiences of the War have, moreover, shown that it is possible for the organisation and control of the administration to be made simpler. There is the further fact that public burdens will undergo an extraordinary increase after the War. In these circumstances I desire that the question shall be seriously examined how a simplification and reduction of the cost of all the State administrations can be brought about."

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I

NATIONAL ECONOMY AND FORMAL FINANCE

"NATIONAL Economy" stands in the countries of Northern Europe for what we call Economics or Political Economy. I do not use the words in this wide sense. Just as the Select Committee on National Expenditure was set up in 1902 to inquire into certain aspects of Government expenditure, just as the National Debt is the debt for which the Government — the organised, centralised power of the nation—is responsible, so by National Economy I mean in effect Government economy, and not the economy of the private citizen, either in his home (Domestic Economy) or his business (Political Economy). "Economy" I use in its true sense as the wise management, husbandry, or administration of resources. We must at the outset clear our minds of any confusion between Economy and Parsimony. Burke does it for us in his *Letter to a Noble Lord*: "Mere parsimony is not economy. It is separable in theory from it; and in fact it

may, or it may not, be a *part* of economy, according to circumstances. Expense, and great expense, may be an essential part in true economy. If parsimony were to be considered as one of the kinds of that virtue, there is, however, another and a higher economy. Economy is a distributive virtue, and consists not in saving, but in selection. Parsimony requires no providence, no sagacity, no powers of combination, no comparison, no judgment. Mere instinct, and that not an instinct of the noblest kind, may produce this false economy in perfection. The other economy has larger views. It demands a discriminating judgment, and a firm, sagacious mind."[1] Parsimony, in short, is not a principle but a policy, and like any other policy may be good, bad, or indifferent. Bastiat carried his dislike of Government action so far as to say that the State does harm even when it is doing good. The apostles of Parsimony, strict adherents of this paradoxical form of *Laissez-faire*, have gone very near the assertion that the wisest use of national resources is for Government not to use them at all but to leave them in the pockets of the people, in which doubtful soil they are alleged to fructify. On June 27, 1821, Joseph Hume delivered in the House of Commons a speech on retrenchment, subsequently published as a pamphlet. Its most applauded passage was this: "The more money that was left in the pockets of

[1] *Works*, edition 1852, vol. v. p. 229.

the people, the stronger would be the Government and the more secure the public credit." To deprive Government of all funds would thus, it seems, give it a maximum of strength instead of reducing it to an impotent shadow. The real question is whether in any particular case the portion of social income equitably taken from individuals for national investment promises to yield a better harvest of common weal in the collective pocket. The War has created a more favourable atmosphere for the programme of Private Thrift, Public Expenditure[1]—less individual gratification of futile whims and fancies, more well-ordered expenditure by Government in the fight against social evils, Pauperism, preventible Disease, Ignorance, Intemperance, and generally in the upbuilding of public utilities. National Economy, then, while the deadly enemy of Waste, looks to the wise management of the resources of Government and not merely to abstinence, restriction, or retrenchment.

How is National Economy to be promoted? "Well," says Gallio, "I am not the Government. I am but a plain citizen and do not exercise myself in great matters which are too high for me." Yes, but it is from plain citizens that Government emanates, their patrimony that it administers, and for their benefit that it exists. Their opinion is something

[1] "Private thrift, public expenditure—that is the way to raise a town or nation in the standard of civilization" (Sir O. Lodge, *Modern Problems*, p. 167).

by which Government may be assisted or may be impeded, but to which it must in the long run conform or disappear. It was within these walls that John Austin defined Democracy as Sovereignty split into fragments. The private citizen owes to his country something more than his purse, something more even than his heart. To serve his generation faithfully he must give it his brains, and not abdicate his fraction of sovereignty. The more the average citizen knows about National Economy the better our National Economy will be.

If further justification for either the title or the subject of these lectures is needed we may look to the Government of the United States. On June 25, 1910, President Taft obtained a grant of 100,000 dollars "to enable the President by the employment of accountants and experts from official and private life to inquire into the methods of transacting the public business of the executive departments and other Government establishments, and to recommend to Congress such legislation as may be necessary to carry into effect changes found to be desirable that cannot be accomplished by Executive action alone." The Commission upon Economy and Efficiency which was then set up, composed of a few paid specialists who give all their time and attention to their business, has not only produced valuable Reports but has made valuable reforms. I shall refer to it hereafter as the

American Commission. It is still at work, and seems in a fair way to justify its permanent existence. In a Message to the two Houses of Congress on January 17, 1912, President Taft transmitted a report of the progress made. Here are some extracts from his Message: "Real Economy is the result of efficient organization. By perfecting the organization the same benefits may be obtained at less expense. A reduction in the total of the annual appropriations is not in itself a proof of economy, since it is often accompanied by a decrease in efficiency. The needs of the nation may demand a large increase of expenditure, yet to keep the total appropriations within the expected revenue is necessary to the maintenance of public credit. . . . The operations of the Government affect the interest of every person living within the jurisdiction of the United States. . . . Its activities are almost as varied as those of the entire business world. . . . No exhaustive inquiry has ever before been instituted concerning the methods employed in the transaction of public business with a view to the adoption of the practices and procedure best fitted to secure the transaction of such business with maximum dispatch, economy, and efficiency. . . . I am convinced that results which are really worth while cannot be secured, or at least can be secured only in small part, through the prosecution at irregular intervals of special inquiries bearing on particular services or features of

administration. The benefits thus obtained must be temporary. The problem of good administration is not one that can be solved at one time. It is a continuously present one."

Some European Governments have a Minister of National Economy, who should save them from the reproach levelled by Professor Hewins against the British Government that its economic policy is too departmental, by which is meant that the economic aims of various Ministers are not sufficiently co-ordinated. In the absence of a Minister of National Economy it is the Minister of Finance who is ultimately and vitally concerned in National Economy, and perhaps the best way of dealing with our subject is to consider by what principles he should be guided in his policy and his administration.

First as to policy. A distinguished American writer, Professor H. C. Adams, lays it down that "a sound policy of public finance must rest upon a thorough knowledge of political economy."[1] Observe he does not say that such a knowledge is sufficient. His meaning clearly is, that a policy is financially unsound if it is condemned by the economist. But what is an economist? It behoves me to speak with respect of Joseph Hume in this place where scholarships, both of which I have held, have been

[1] *The Science of Finance*, 1898, p. 5. Prof. Bastable more guardedly declares an acquaintance with economic science to be "an indispensable part of the equipment of the student of finance" (*Public Finance*, 3rd ed., 1903, p. 10).

founded in his name. But the habit of referring to him as Joseph Hume the economist, because he was a Member of Parliament who in season and out of season urged the cutting down of estimates, is a travesty of language. Neither is the economist, properly so called, a doctrinaire who, equipped with more or less economic theory, conceives himself to have a skeleton key to all social problems, and sets his logical apparatus to work to arrive rapidly and triumphantly at a conclusion without troubling himself to make sure that his premisses are accurate and complete. An economist who knows nothing of the movements of prices, wages, unemployment, pauperism, population, imports and exports, the ups and downs of the Money Market, and the bank-rate of discount, whose finger is never on the pulse of trade, commerce, and industry, banking and finance, who never reads in the book of economic life of which his studies are the mere grammar, need not be taken seriously. As Professor Marshall well says, in economics "nothing can be done by the reason alone, and very little can be done well except by the trained reason," but it must be a "reason acting on observed facts."[1] Contempt of the facts has bred so large a contempt of the economist that he is still looked upon in some quarters as an ideologue, speculative and aloof, harmless perhaps, useless undoubtedly,—not a man

[1] *Principles of Economics*, 2nd ed., 1891, p. 86.

of the world. In fact, the true economist is a man of trained reason who is pre-eminently a man of the world, watching its movements with the eye of a skilled observer, knowing what to look for and where to look for it, and keenly anxious to discover the causes and effects of economic phenomena. He "palpitates with actuality." Professor Henry Sidgwick once asked me what I thought of an economic treatise which had recently appeared. I offered some criticisms and requested his opinion. "To tell the truth," he replied, "I have not read it. I looked at the index, and as he did not mention me I thought I need not refer to him." Then, more seriously, "I should not have expected to derive any profit from him, knowing that he has what I call the cross-country mind!" The cross-country mind in economics is often much admired by the unknowing. "How quick and clever!" they say; "how smart and logical!" To which you may generally add, "How ill-informed, useless, and misleading! What croppers he comes!"

It may be objected that Professor Adams's statement is very sweeping. After all, it may be said, there is no finality about Political Economy. What seems the thorough knowledge of to-day may be discredited to-morrow. It is, of course, true that Political Economy, which is, as a science, barely a century and a half old, is, like other sciences, continually purging itself of error. Very little learning

is now required to criticise Ricardo's theory of Value, or Malthus's principles of population, or the Iron Law of Wages arrived at by a combination of the two, or the Wage fund theory, or the quantity theory of money. But solid conquests have been made which, while they may be extended, can hardly be overthrown. Above all, we distinguish between theory and its application to practical problems involving the unknown and the incommensurable. The economist as such is no longer in danger of provoking the working man to say, "If Political Economy is against us we must be against Political Economy." He is an analyst whose mind, cleared by economic theory, is always at work on its material,—a man of ideas with a special knowledge of particular facts. In Germany leading economists are skilled advisers of the State, Privy Councillors who are called in for active discussion.

It is this kind of economist, always exercising his knowledge of how to observe the social organism, who is so important in the forming of financial policy. The history of finance records many blunders, mostly economic, some due to lack or neglect of advice, others to bad advice. The development of economics has been one-sided. The production of wealth in large quantities at low prices with great profits has received theoretical and practical attention out of all proportion to the best uses of wealth, the true wants of consumers, and

the real needs of the nation. Financial theory has followed a parallel movement. The raising of revenue, taxation, and taxes overshadows consideration of the spending of the public income. The great bibliography of Financial Science of Stammhammer,[1] with its 400 quarto pages of double columns of the titles of books, contains little to guide us in this direction. Of the principles of taxation there is enough and to spare. Their application is another matter. It is not sufficient to have a plan or policy for the raising of revenue. We must have behind it the organisation to make our plan effective, and (the resources being but a means to an end) the wisdom to apply these resources to the best advantage by using the revenue well.

This brings us to financial administration. Are there any principles here by which we can be guided? "Surely," says Noodle, "to go about to formulate principles of financial administration is nothing but a piece of pretentious folly. You might as well attempt to formulate principles of common sense. The only sound principle I know of is to decide every case upon its merits." Now Huxley, who knew something of science, defined it precisely as "organised common sense." The phrase that every case should be decided upon its merits is a platitude masquerading as sagacity. The medicine-

[1] *Bibliographie der Finanzwissenschaft*, Jena, 1903.

man of a Zulu tribe aims at deciding every case on its merits, but his knowledge is not sufficiently well organised to enable him to discover what its merits are. Undeterred by Noodle we will consider whether we can organise a little common sense about financial administration.

If we suppose that a Minister of Finance is fortunate enough to discover as adviser a paragon to whom is vouchsafed "a thorough knowledge of political economy" it does not follow that what is ideally sound policy from the economic standpoint is at once practicable. Discussing the Corn Law of 1773, "in many respects better than the ancient one, but in one or two respects perhaps not quite so good," Adam Smith says: "With all its imperfections, however, we may perhaps say of it what was said of the laws of Solon, that though not the best in itself, it is the best which the interests, prejudices, and temper of the times would admit of. It may perhaps in due time prepare the way for a better."[1] It has been my privilege to be well acquainted with three great Ministers of Finance who were also distinguished economists—M. Léon Say, who liberated France so successfully from the war indemnity; Dr. Pierson, in turn Professor of Economics, President of the Netherlands Bank, Finance Minister and Prime Minister of Holland; and the late Lord Goschen. Each of them has made contributions of lasting

[1] *Wealth of Nations*, book iv. ch. v.

value to the literature of economics and finance. Each of them achieved great things in the world of action, and contemplated greater, but recoiled before the real or supposed difficulty of overcoming "the interests, prejudices, and temper of the times." The most sensitive nerve in the body politic, and the most easily inflamed, is the sense of injustice. When the injustice is imaginary it may be removed from the path of reform in National Economy by enlightenment—a better knowledge of finance by the public, a better knowledge of the public by financiers. Proposals resisted and rejected in the first shock of surprise as when, for example, a secretly prepared Budget is sprung upon the public, might be perfectly acceptable if the popular mind were properly informed and prepared in advance by education in the general principles of finance.

How indispensable to finance is skilled statistical advice is shown at length by Giffen in chapter xi. of his *Statistics*.[1] Let me quote from another of his volumes: "Any man, it seems to be thought, can handle figures, and writers who are otherwise competent are not afraid to touch them as they would be afraid to touch chemistry, or geometry, or botany, or geology, or almost any science one could name."[2] Closely parallel is the language of Jevons about economics. A great many mistakes, he says, are made about it by people who ought to know better.

[1] 1913. [2] *Economic Inquiries and Studies*, 1904, vol. i. p. 284.

"These mistakes often arise from people thinking that they understand all about political economy without studying it. No ordinary person of sense ventures to contradict a chemist about chemistry, or an astronomer about eclipses, or even a geologist about rocks and fossils. But everybody has his opinion, one way or another, about bad trade, or the effect of high wages, or the harm of being underbid by cheap labour, or any one of hundreds of questions of social importance. It does not occur to such people that these matters are really more difficult to understand than chemistry, or astronomy, or geology, and that a lifetime of study is not sufficient to enable us to speak confidently about them. Yet, they who have never studied political economy at all are usually the most confident." [1]

The whole outlook upon finance is changed by the world-shaking war which dwarfs the financial problems of the past into child's play. In 1879, when the income tax, standing at fivepence in the pound, brought in about nine millions of revenue, Sir Stafford Northcote found himself confronted with a deficit of slightly over two millions. Instead of increasing taxation he spread over two years the repayment of a temporary debt of five millions, which was falling due. Mr. Goschen described this policy as "shabby, flabby, and inadequate to the occasion," wanting in the courage which was calculated to secure repute

[1] *Political Economy*, 1878, p. 8.

abroad and credit at home. This was widely regarded as a splenetic outburst of unreasonable pedantry, and the Chancellor's refusal to take what he called the "heroic" course of paying his way in the year was generally approved. Who would now doubt the wisdom and the duty of making one mouthful of a sum so small relatively to our national wealth?

The raising of moderate revenue in a very rich country does not make serious demands upon the skill of its financial authorities. We shall now have for a long time to face the necessity for an immoderate revenue; and the whole problems of spending and saving must be faced anew with all the aid we can get from science — economic, statistical, financial, and other. The more widely these sciences are diffused the easier the task will be. In the speech from which I have just quoted, Mr. Goschen warned the Government that when you are rowing against the wind and the stream it does not improve the stroke to keep your eyes upon the electioneering figures on the bank. But the better informed the electioneering figures are, the less is the risk of their ragging the crew which is rowing a good stroke on a right course. "Educate your masters" is still good advice.

So much for the scope and purpose of these lectures. To come to grips with our subject let us imagine that you are called upon to be responsible for the public finances of a country which we will

call Urania, and that you have very little knowledge either of Urania or of finance. How are you to set about your business?

To begin with, you had better learn as much as you can about Urania itself—its geography, history, constitution, population, area, natural resources and products, trade and industry, imports and exports, and such facts as you will find in the *Statesman's Year Book* and the *Statistical Abstract* or *Annual* of the country. Of especial importance is the mode of living of the people, their habits as to food, drink, clothing, housing, etc. A few typical family budgets showing the expenditure characteristic of the masses of the people will give you invaluable information. Having some idea of the wealth of the country you pass to consider the financial condition of its government, and for this purpose should glance over a summary of its income and expenditure for a number of years, and then examine very closely the last completed account and the budget estimates for the coming year. You may be struck by the fact that the revenue of Urania is per head of population twice as great as that of Icaria, to which it offers much economic resemblance. To conclude that the people of Urania must be twice as heavily burdened as those of Icaria by taxation would be a grave error. We will examine later the much-abused phrase "burden of taxation." Note first that receipts are not all revenue, and that revenue is

not all taxation. It is a large assumption that these two countries are fairly comparable in respect of means of livelihood, and modes of living. Their public accounts are, however, compiled on such different principles that comparison of the totals is wholly misleading. To begin with, they do not cover the same ground. In Urania, certain services, like railways and police, are paid for by the central government, while in Icaria they are in the hands of private companies and local authorities. Secondly, in Urania payments are made by one government department to another, while in Icaria the expense is borne once for all by one department instead of being shown in the accounts twice on one side and once on the other, and so inflating the totals. Thirdly, the Urania accounts are gross where those of Icaria are net. Thus for Urania we find the whole expenditure of revenue departments on one side and the whole of their receipts on the other, while in Icaria these expenses are paid out of receipts, and the net revenue alone is shown. The one system of account magnifies the figures, the other belittles them. As we are not comparing like with like, a comparison of the mere totals is fruitless. International comparisons of finance by those who know nothing of the financial systems, methods, possibly even the languages of the foreign countries to which they refer, are frequently most misleading. We find *e.g.* confident comparisons of the taxation per head

in England at the time of Napoleon and in England of to-day. But the financial system has in the interval been radically altered, the ambit of government (including local government) greatly widened, and the modes of accounting for the national expenditure then and now are widely different, to say nothing of the increased wealth of the people and the altered value of money.

To return to our business. You were examining the balance-sheet, in order to take your bearings, when we digressed to notice that before we can interpret an account we must know how it is built up, and that there are many and important variations of construction. It is highly necessary to have the national balance-sheet well drawn. What is the best way to prepare it? The gross figures are clearly more informing than the net which can be deduced from them. But the gross receipts are not all revenue. Money paid by litigants into Court to abide the event is received and held on behalf of Government, but does not belong to the State, and should not figure as revenue but be kept in a separate statement of account. The same thing is true of Savings Bank deposits or of such security as the French Government requires of its collectors of revenue. But let us take another example. You go to the Post Office to send a telegram abroad, over the ocean cable of a private company, and pay a sovereign for its transmission. Of this the Post

Office retains perhaps a shilling for its land services, and hands the balance of 19s. to the Cable Company to which it belongs. In this case, to show £1 as revenue and 19s. as expenditure would be as misleading as if you were to buy a shilling article from a tradesman and tender him a £1 note, and he recorded the pound as a receipt and the 19s. change as an expense in his account. The operation so far as he is concerned is the receipt of a shilling. The Post Office is merely a conduit pipe for the 19s., which never belonged to it and should not figure as Government revenue. Similarly, an overpayment, say of income tax, refunded on application is properly deducted from receipts. It is indefensible to speak of such transactions as "interception of revenue." The money never was really revenue. This is also true of money paid by one Government department to another. The payment adds no more to your resources than if it were shifted from one pocket to another. Let us then conclude in favour of gross rather than net figures, but be careful to eliminate pseudo-revenue, and aim at showing in our account what expenses Government has to meet for its own business and what resources were at its disposal for the purpose.

Another great distinction between forms of account is the system of income and expenditure and the system of receipts and payments. The first affects to show the income and expenditure proper

to the year. The second is content with the cash record of income actually received and expenditure actually incurred. Either system would be unimpeachable if it could be completed by an accurate statement of outstanding liabilities, contingent receipts, debts written off, and depreciations. The income and expenditure account is favoured by many high authorities, for example, Adams and Leroy-Beaulieu, the last of whom declares it to be the only rational system. At best, however, it can only approximate to its aim. Are you to apportion each new telephone subscription according to the number of days remaining before the 31st March? Are arrears of income tax to be spread over the back years in which they fell due? Are elaborate depreciation accounts to be set up in respect of articles purchased in the year but capable of serving more than one year? For practical working purposes variations of this kind may be taken in the rough to balance one another. The cash system is prompt and simple; and meticulous approximation to a more or less true figure by an income and expenditure account is, in public finance, dearly purchased by the sacrifice of time and trouble involved and the greater complexity of the result. The British system is a cash system. The French adopt the other system. "Even in France," says Mr. A. J. Wilson, "with its carefully chosen Budget-Committees, the true state of the national balance-sheet is often hard to

discover. Arrears of taxes in one year overlap with those of other years, credits old jostle credits new, and amid the confusion the truth is smothered."[1] With its pristine vivacity *The Economist* of the 29th December 1866 expressed itself thus on the same subject: "The political effect is that the French nation can form no opinion about its finance. It is told too much, and in too abstract a form, and so knows nothing. The English Chancellor gives every year a rough popular account of the general state of things, and this can be broadly criticised and dealt with. And it is only so that a free nation can judge of its finance. If it attempts precision it ensures failure."

The two methods of account are compared in the Report of the Departmental Committee on Accounts of Local Authorities.[2] The Committee reported in favour of the income and expenditure account for local authorities, adding that they would still be able to close their accounts within a month or two of the end of the financial year. Few Governments could do this. The French Government is rarely able to close its accounts in less than three years.

The device of Appropriations in Aid in use in this country, under which certain non-revenue departments are allowed to utilise their receipts in

[1] *The National Budget*, 1882, p. 148.
[2] Cd. 3614 of 1907.

place of voted moneys, is discussed in Appendices to the Report of the Select Committee on National Expenditure.[1] Many of the objections urged against this procedure rest upon misapprehension, but Sir Robert Giffen throws his weighty opinion into the scale against them, on the ground that the question of real interest to the student of national finance is not how much Parliament is asked to vote for the public services, but how much of the country's resources Government administers. "Nothing is so useful," he says, "as the first figures of all—the gross income on one side, however arising, and the gross expenditure on the other side, however caused."[2]

Having got your figures showing what Government has paid to do its business and what resources it has encashed to meet its expenses, and being satisfied that there is nothing very abnormal about outstanding items on either side, you have a fair idea of how the year has turned out financially. The situation as regards debt should next be considered. How has the debt moved of late years, funded or permanent, and floating or temporary? If it has been increased, for what purposes was it raised? Is it new capital, productive of new revenue, adding, for example, to your telephone or railway system, or is it dead-weight debt? To these questions we will return. We see how we stand,

[1] House of Commons Paper, 387 of 1902, pp. 212-13, 223-24.
[2] *Statistics*, 1913, p. 231.

and how we are moving as regards indebtedness. Let us now look ahead to the coming year.

The revenue authorities will tell us how much each of them expects to receive. Examine the figures under each head for the last few years and let your estimate be as good as you can make it. The unforeseen will affect your figures. A General Election will increase the Post Office receipts. Good trade or bad trade, the weather, the harvests, will affect your Customs, Excise, and Inland Revenue. If you over-estimate your revenue and provide for expenditure up to the hilt, you will have an unpleasant awakening and a deficit to be met. If you under-estimate your revenue and realise a large surplus, you will be pressed to reduce taxation or to launch out into new expenditure. Lord Althorp, when Chancellor of the Exchequer, said that nothing is so disturbing to trade as new taxation except the reduction of existing taxes. When times are normal, and reasonable provision is made for extinction of debt, a large surplus suggests to your critics that you are laying an unnecessary load upon the taxpayer. Mr. Goschen was attacked by Sir William Harcourt on the ground that by deliberately under-estimating his revenue and over-estimating his expenditure he provided himself with a surplus which his opponent stigmatised as "easy finance." At any rate, let your estimates be sincere. You are sure to have demands later on for urgent, unforeseen

expenditure. You cannot be sure of unforeseen good luck with your revenue. It is therefore prudent to be on the safe side, and not over-sanguine.

The spending departments will estimate their requirements in the light of experience, but to do so they should have their expenditure classified under the important main heads. The classification should be as uniform and logical as possible, and the figures of actual expenditure under each head for several years should be scrutinised and compared. If a margin is allowed on each head, the aggregate over-estimate may be considerable. On the other hand, to pare everything down to the quick will probably result in a litter of supplementary credits. Listen to a statement of Mr. Gladstone in evidence before the Public Accounts Committee in 1862, when he was Chancellor of the Exchequer: "I look with great jealousy upon Supplementary Estimates. I think that Supplementary Estimates are very plausible in principle, but that in practice nothing would so much tend to defeat the efficacy of Parliamentary control as the easy resort to Supplementary Estimates. It is absolutely necessary, in my opinion, to the efficacy of Parliamentary control that the House of Commons should have the money transactions of the year presented to it in one mass and in one account. . . . If Supplementary Estimates were easily and frequently resorted to, one consequence would be that the House of

Commons must in self-defence appoint a permanent Finance Committee. It would alter altogether the relations between the House of Commons and the Executive Government so far as the control of expenditure is concerned."[1] Later, an ex-Chancellor of the Exchequer, in Opposition, described a batch of Supplementary Estimates which he thought showed lack of foresight, as "sloppy finance." Take every precaution to provide for all your probable expenditure. To estimate liberally for expenditure is sound policy provided you have adequate guarantees for economical administration. Avoid then, on the one hand, the "easy finance" of deliberately under-estimating your resources, and, on the other, the "sloppy finance" of carelessly under-estimating your requirements.

You have now your programme of the year's finance. But all your care is in vain unless you have an efficient and independent audit, watching expenditure and revenue, seeing that all expenditure is duly authorised, duly vouched for, and duly classified, and that the receipt of revenue is properly safeguarded and accounted for. At the end of the year you will see how results compare with forecasts, and will have explanations of the reasons for any serious divergence from your estimates descending to detail for each sub-head of expenditure. These explanations will be serviceable when you come to

[1] House of Commons Paper, 467 of 1862, Q 1571.

examine future estimates. These three parts of your machinery are of capital importance—a well-devised form of estimates for both revenue and expenditure, a well-framed out-turn account, and a competent, vigilant, fearless audit. Good financial forms are good tools without which the best of workmen is badly handicapped. Recognition of their importance is comparatively modern. It was only in 1832 that Sir James Graham as First Lord of the Admiralty started classifying naval expenditure under its main heads—wages of seamen, victualling of seamen, expenses of the Admiralty Office, labour and dockyards, materials for building ships, etc. This fruitful reform was gradually extended to other departments. Our present financial system, which I have described elsewhere,[1] rests in the main upon an Act of 1866,[2] which has remained practically without amendment for fifty years. Its jubilee has been marked by the presentation to Parliament of an interesting review of its working by the Comptroller and Auditor-General.[3] The Government of the United States is but just beginning to construct its formal financial administration upon scientific lines. "The United States," says the President in the Message from which I have already quoted, "is the only great nation whose government is operated without a Budget."[4] The American Commission

[1] *The Financial System of the United Kingdom*, 1914.
[2] 29 and 30 Vict. c. 39. [3] Cd. 8337 of 1916.
[4] *The Need for a National Budget*, Washington, 1912.

has published a summary of the formal finance of forty different countries, and has called in the highest authorities on accountancy to advise upon the ideally best method of presenting the figures of the national balance-sheet. It mentions as an example of the character of data contained in official reports the statement of receipts and disbursements for the fiscal year ended June 30, 1910—a report required by law, and the only statement purporting to give an analysis of expenditures of the Government as a whole. This shows that the expenditures for salaries for the year 1910 were 132 millions out of 950 millions. As a matter of fact, the expenditures for personal services during that year were more nearly 400 millions. But we will not pursue the subject further. The great basic documents which show us, or ought to show us, where we are, bring us only to the threshold of the problem how we should set to work to seek National Economy and to ensue it.

II

ECONOMICAL ORGANISATION AND BUSINESS MANAGEMENT

IN one of the programmes of World Politics put forth by or on behalf of the German Government is included a promise under German hegemony "to endow Egypt with scientific administration." The temptation to compare, say, Lord Cromer, as an administrator, with Dr. Peters is strong, but we will resist it, and note merely the suggestion that there is such a thing as scientific administration, and that it is a matter of great national importance. Its essentials are, first, to have a clear view of what is aimed at—the settlement of which is art or policy, in the guidance of which science may play a large part; secondly, to devise the best organised or, in other words, the most scientific methods of carrying out the object; and, thirdly, to press home well-organised and well-ordered arrangements to their maximum effect by administrative energy and efficiency and a scientific scrutiny of results. Let us first consider organisation in broad outline.

Government is a big business, and as such needs to be divided into sections or departments to secure the advantages, well known to every reader of the *Wealth of Nations*, of the Division of Labour. The natural line of division is by function. The functions of Defence, Internal Security, Finance, Trade, Commerce, and Industry, Education, Public Health, and the like are best discharged by specialisation. Matters of primary national importance are assigned to Ministers, who are thus enabled to bring a first-hand knowledge of them to the deliberations of a Cabinet or Council of Ministers. The departmental affairs of, for example, the Lord Privy Seal or the Chancellor of the Duchy of Lancaster are not matters of Cabinet interest, and do not in themselves qualify their managers for useful contribution to Cabinet consultation. Mr. W. H. Smith, usually regarded as a good man of business, was strongly opposed to the practice of giving the Post Office, any more than the Customs or Inland Revenue, a separate ministerial head. Similar views have been expressed as to the office of First Commissioner of Works. The final decision must rest upon wide political considerations of what the old German universities called *Polizeiwissenschaft*—upon which many books have been written, on the whole worthy of silence. Ministers without portfolios are more expensive than portfolios without Ministers. On the other hand, it may be specially desirable to include in a Ministry Elder

Statesmen or other persons of peculiar qualifications, even though they have little or no departmental business. The so-called London Committee upon Egyptian Finance, composed of Lord Cromer, Lord Welby, Sir C. Rivers-Wilson, and Sir J. Carmichael, put in the forefront of their Report: "We are of opinion that in so small a country as Egypt the general government can adequately be carried out by a Ministry composed of four members,"[1] a criticism perhaps justified by the then state of Egyptian administration, but clearly in their view within the province of financial comment. In constitutional countries every Department should have a ministerial representative and spokesman, not necessarily a Minister to itself. How many Ministers there should be, what Departments they should represent, and which of them should be in the Cabinet are not—apart from the Ministers of cardinal importance—questions of principle, but must depend upon the circumstances of the time in each country.

In marking out the spheres of Departments the line is not always easily drawn. Should Law Schools, for example, be under a Minister of Justice, Agricultural Colleges under a Minister of Agriculture, Medical Schools under a Minister of Public Health, and so forth, or should all education be under a Minister of Education? In all such cases those who are just on one side of the line which is drawn, do

[1] Cd. 4127 of 1884, p. 2. Egypt has now seven Ministers.

well to keep in touch with those on the other. Cross-divisions almost inevitably tend to waste and inefficiency. The delegates of the American Commission who visited this country, after mentioning to me their inability to discover from the public accounts our total expenditure on Public Health—partly by voluntary effort, partly by local authorities, partly by the Home Office, the Board of Trade, the Board of Education, the Board of Agriculture, the Local Government Board, and other Departments — expressed curiosity whether the lack of co-ordination was consistent with economy. In certain directions it is clear that centralisation is necessary to avoid waste. If every department employs its own architect, some will be insufficiently employed, the advantages of wide experience will be sacrificed, there will be costly variations in design, execution, and fitness. If every department buys its own furniture, fittings, and stationery, and arranges for its own printing, idiosyncrasy will have free play, expensive whims will be indulged, and a number of departments purchasing in petty packets will be competing against each other with narrow amateur knowledge. A pooling of demands leading to standardisation of requirements, contracts on a large scale, and specialised skilled management, will be undoubtedly more economical. Whether your centralised department should be a producing or a buying department—whether, for example, Govern-

ment should have its own printing press or put out its printing to private firms—must be determined on the facts *hic et nunc* as Sir William Petty was fond of saying. For all purchases of magnitude public tender is desirable, not only as a safeguard against corrupt dealing or favouritism, but also to give you the best market conditions. It is important that the conditions of tender should be sensibly drawn. Awkward or irritating conditions or unusual requirements have to be paid for directly or indirectly. A standardisation of parts is an elementary necessity.

When your public service as a whole is well mapped out into departments, the organisation of each department is the next concern. Here, again, function is the element to be looked to, with the limitation that division must not be carried so far as to leave a section insufficiently occupied. In foreign post offices where the clerks are at separate *guichets* or windows, perhaps in different parts of the building, instead of at one long counter, you may find a crowd of applicants at one window while the clerks at the others are idle, and unable even to sell you a postage stamp. Such water-tight divisions lead to waste of official time. If, again, you wish to send off a letter, a parcel, and a telegram, and the business is all done in one room, you can go first to the section where there is at the moment least waiting, and may find the crowding diminished when you pass to the other section. The need to go to separate rooms or

buildings may easily double the loss of time to the public. In every department care must also be taken to ensure congruity or uniformity of practice and principle throughout bureaus or divisions.

Let us now consider the organisation of the *personnel.* Their classification is of great financial importance. The grading of professional or technical officials, lawyers, doctors, architects, engineers, etc., is usually in expert hands and offers no great difficulty, but an insidious vice of bureaucracy is to multiply classes in the clerical ranks beyond reason. A great rank and file for unskilled clerical labour of copying and accounts, with comparatively few non-commissioned officers supervising the groups, and still fewer officials representing the brain of the army, should give you a pyramidal organisation. When you find beneath an Under-Secretary of State such classes as directeur-général, sous-directeur-général, contrôleur, sous-contrôleur, chef de bureau, sous-chef de bureau, directeur, sous-directeur, and below these clerks of several classes (to say nothing of assistants or *adjoints* to the various classes), you have distinctions of clerical rank without difference in the importance of functions, or without such differences as to justify the numerous gradations. The small Departments will be moved by *amour-propre* to press for these honorific ranks with their accompanying pay. The business organisation which you see in the great commercial establishments, the manner in which the

banks, railway companies, insurance companies, etc., band their clerical armies together, is deserving of close attention and discriminating imitation. Make the number of classes and the number in each class as few as is consistent with efficiency. Seasonal fluctuation is a fruitful source of waste, each section of a department being prone to ask for the permanent employment of as many men as are required at its time of maximum pressure, which may be for only a few weeks in the year. Where this difficulty cannot be met by a reasonable amount of overtime in the busy period, or by the employment of temporary force, it can often be surmounted by temporary transfers. Chronic overtime is to be deprecated as neither economical nor efficient.

Rates of pay should be carefully compared with those which prevail in the open market, with due regard to the net advantages of employment. The State official has assured and regular pay, privileges of ordinary leave, sick leave, and holidays on full pay, short hours, and in most cases pension rights, which should all be taken into account. The man in private employment is liable to short time, to a temporary shutting down of the business, or to the loss of employment if his master retires from business, is bankrupt, or removes to another place. The civil servant has no anxiety or loss on this account, and has no need to insure himself against sickness or unemployment by contributing to trade union or

other funds. The distinction between skilled and unskilled ranks is of great significance in the method of remuneration. If you turn your eyes to the outside world you will see that, apart from general changes in the labour market, an unskilled labourer earns his maximum wage as soon as he is able to do a man's work. Even the skilled artisan, once he has completed his training, has little prospect of earning more than the initial wages of a skilled workman—the union rate. In the professional classes experience, capacity, and growth of connection enable a successful doctor, lawyer, engineer, or architect to increase his earnings as his experience widens and as his services improve in the estimation of those who employ him, so that he is frequently at his maximum at the time of his retirement. This cardinal distinction is frequently not recognised in Government employment. Length of service is accompanied by regular increases of pay even in the classes where the value of experience quickly reaches its limit, and in many cases begins to be counterbalanced by a falling off in mental and physical vigour. To put it shortly, salaries increase long after service ceases to improve. Unnecessary expense is thus incurred on the effective list and ultimately on the pension list.

In fine, your service should not have its efficiency impaired by well-founded discontent with its pay as compared with outside employment, while on the other hand the taxpayer should have no ground for

belief that public servants are generally overpaid or underworked.

The advantages and disadvantages of a pension system are highly debatable. The Report of the American Commission upon this subject is the most thorough discussion of it which has yet appeared.[1] In his covering Message to Congress (May 6, 1912), President Taft observes that in the absence of a State pension the only alternative to the summary discharge of officials whose efficiency is impaired by age, is to keep them on and to expect from them work of smaller quantity and a lower grade, to the detriment of economy and of good service. The so-called "straight pension," such as we have in England, is condemned as raising more questions than it solves, and as a pure tontine in which the survivors benefit at the expense of those who die in harness. A compulsory contributory system is recommended, the contributions with interest at 4 per cent to be returned to the official or his personal representatives when he dies or leaves the service. In favour of the "straight pension" it may be urged that an official whose experience has become very valuable is deterred from yielding to temptation to accept outside employment by the knowledge that he will be throwing up his pension rights. On the other hand, it is doubtful wisdom to insist upon retaining a

[1] *House Documents*, vol. 117 of 1912, Washington, "Report of the Commission on Economy and Efficiency upon Civil Service Retirement."

man who wants to go. In the rare case of default in accounts, the loss of such rights gives some compensation to the State. It is no doubt true in general that the spectacle of old and faithful but improvident servants, unable to maintain themselves decently in their declining years, would have an unfortunate effect upon public opinion and upon future recruiting; but a civil servant with his "small certainty" of regular income is in an exceptionally favourable position for making consistent provision for old age. A serious objection to "straight pensions" is that they increase the difficulty of ridding the service of unsatisfactory officials who are qualified for pension by neither age nor infirmity. The loss of pension is in such cases a formidable penalty, and, failing misconduct, there is virtually a permanent tenure, to the detriment of the public interest. A contributory system is unjust when the contributions are forfeited in case the employé dies or resigns before receiving his pension. The complicated machinery which it involves has, in any case, little justification in a country where solvent insurance companies abound, and still less where the State itself undertakes the business of insurance or deferred annuities.

If pensions are granted they should be confined to the class of officials whose value increases with experience. A porter or a copyist is, as such, of little more value to the State after thirty years of service than after thirty weeks, and can be replaced

without loss of efficiency. For unskilled ranks, whether in manual or in clerical labour, a full, fair wage should be paid, but it need not be pensionable. The important thing is to bear in mind that pay and pension must be considered together. If the pay is adequate in itself it is perhaps best to leave the payee to make his own arrangements for future contingencies.

Looking round now at your organisation you may find that the *cadre* is not encumbered by unnecessary classes, that numbers diminish as classes ascend—fewer captains than subalterns, fewer majors than captains—and that the conditions of pay and employment are equitable. There may still be waste. The gay wisdom of Walter Bagehot offers us two maxims not always acted upon. Don't use razors to cut bricks, and don't set your clerks to verify the ready-reckoner. Where you find a superior official engaged upon wholly inferior duties the case is simple. The danger of excessive cost really lurks in the mixture of duties. Smith is employed on first-class work and Brown on third-class work. Suppose somebody to say to himself, "Brown is a very good fellow and capable of better things. I should like to do something for him. Let him take half of Smith's work in exchange for half of his own, and put him forward for first-class pay." A representation that Brown is doing work of a higher character, that his duties are precisely similar to those of Smith who receives a higher salary, and

that there is no equity in paying him at a lower rate, may induce you, if you do not know the facts, to sanction two first-class posts where one first and one third would fairly meet the public requirements. Cases in which such a mixture is deliberately made may be very rare, but the cases in which such a mixture already made is allowed to continue are not uncommon. A superior clerk whose time is not fully occupied is given some extra work of a lower grade. As the staff grows the process is repeated, until after a time the organisation is an unweeded garden.

How injurious to efficiency as well as economy this blunting of razors may be is shown in a Report made in 1849 by a Treasury Commission upon the staff and work of the Colonial Office. They say: "The first years of official employment are those in which the knowledge, the self-confidence, and the aptitude for business required for the proper discharge of difficult and responsible duties should be obtained; and it is much to be regretted that persons likely to succeed to important situations in the public service should have occupations assigned to them at this critical period of life which are unimproving and unsuited to their education and prospects, and as such likely to give them a distaste for their profession. If, after ten or fifteen years spent in incessant copying and other routine work, the spirit, the mental activity, and the wide extent of acquired knowledge necessary

for vigorous intellectual exertion in the transaction of business . . . are wanting, it is the fault of the system, and not of the individuals who have been placed in circumstances so unfavourable to them."

When he spoke of verifying the ready-reckoner, Bagehot had in mind the process of check and counter-check carried so far that the men who are the last links in the chain never discover a mistake. Governments do not insure their buildings, ships, or other property. Their business is big enough to enable them to spread their risks. But they are prone to over-insurance in clerical and accounting work. An eminent official in another country once told me, probably with a touch of exaggeration, that the cost of auditing certain Government railway accounts was so extravagant that it would handsomely pay to sweep nine-tenths of it away and "stand the racket." It is a necessary concomitant of public expenditure that it should be authorised, vouched for, and checked; but the multiplication of checks may be easily carried to wasteful and ridiculous excess. A dozen initials to a document may signify only that it is correct in form. Over-elaboration of this kind often creates a false security by suggesting precautions which do not really exist. The most subtle peculations, the most daring frauds, are seldom so costly as the slow bleeding of superfluous checks.

Important questions of organisation arise in

connection with the housing of the staff. In many countries Government Departments occupy buildings which were designed for other purposes—old palaces, private mansions, hotels, etc. The visitor may be surprised by the waste of space, the elaborate halls and staircases, or the number of corridors, passages partitions, and separate rooms. Imagine an accounts department of one Chief Accountant and three Principal Officers each in a separate room, with twenty subordinates four to a room, the senior in each room receiving a supervising allowance. If the staff were all in one room, the Chief in a glazed enclosure, the Principal Officers on raised platforms enabling each of them to supervise six or seven subordinates, it might be possible to dispense with the five allowances, to diminish the number of messengers who fetch and carry between nine separate rooms, to speed up the circulation of papers, to economise space, fuel, artificial light, and cleaning expenses, and generally to improve business while reducing cost. The waste is still greater when the staff is scattered into separate buildings.

If, in particular cases, the initial expenditure and the temporary inconvenience involved in structural rearrangements are a bar to prompt reform, you can at least see that similar waste is avoided in any new offices. A well-considered type or types should be adopted as models for each class of your public buildings — ministries, barracks, hospitals, schools,

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prisons, post offices, etc. Each type may be improved in the light of experience, but a standard should always be worked up to. There is plenty of room for false economy as well as for real economy in public buildings. A so-called "saving" on a new building, refusal to scrap an unsuitable building, the choice of a "cheap" but out-of-the-way site, may in particular cases be exceedingly wasteful. On the other hand, overcrowding and inadequate accommodation may be not only unsanitary but fatal to proper organisation and efficiency.

The staff is housed, it must be equipped. The old-time clerk, who mended his quill, copied a document word by word, compared it with the original, and fastened his letters with wax, taper, and seal, has given way to the modern clerk with the steel nib, the fountain pen, and the gummed envelope. The copying press, the carbon paper, the typewriter, the gelatine process give instantaneous mechanical copies which of necessity conform to the original. Shorthand has been revolutionised. The telegraph, the telephone, calculating machine, addressograph, vertical file, card index and loose-leaf ledger, electrical tabulating machine, automatic tell-tale time-keeper, and cash register are saving the work of armies of clerks. In all these changes Governments are prone to lag behind the business world. A new device is regarded in turn as a fad, an expensive toy, and a luxury, long before it is recognised as a necessity. "Don't talk to

me," says Nestor, "of having a shorthand secretary and a telephone at my elbow. Such things may be all very well for a hustling millionaire, but I like to take my time over my business. I have never learned to dictate my letters; and, as for the telephone, I would not have the thing in my room." But the time of Government is, in important matters, vastly more valuable than that of smaller millionaires; and if new methods enable great business to be put through twice as rapidly, it is unfortunate that use and wont should delay their adoption. To put it at its lowest, see that your service is not wasting time and money by standing in the old ways when the new are better.

The American Commission furnishes ample illustration of what can be done in this direction. In its report upon handling and filing correspondence[1]—the purely physical and recording processes, apart from the preparation of drafts of letters, etc.—it shows how the widely different methods are reflected in cost. The average cost of receiving and opening mail per thousand communications runs from 1 dollar 21 cents a thousand in the Navy Department to 13 dollars 63 cents in the Department of Justice; the average cost of recording and indexing correspondence from 52 cents in the Post Office Department and 8 dollars 93 cents in the Navy Department to 62 dollars 98 cents in the War Department; for the

[1] Circular No. 21, Washington, 1912.

handling of outgoing mail the averages vary from 5 dollars 94 cents to 69 dollars 89 cents per 1000. The variations between individual offices within departments are many times greater. So far as filing is concerned, they note that in large commercial corporations the trend is away from the elaborate and in the direction of the simple system, and that vertical flat filing has practically supplanted all other systems. "Commercial concerns," they say, "surround their affairs with proper safeguards, and keep sufficient records of their business transactions to provide against those embarrassments which under a reasonable estimate of probabilities may occur, but they do not waste their time in devising systems so elaborate as to provide against every contingency which might by ingenious conjecture be conceived as possible."[1] They have converted departments, by experiment, to the vertical filing system, which they recommend should be made general throughout the service, and that the "briefing" of correspondence, or docketing it with a subject, date, etc., should be then discontinued as unnecessary. The saving in salaries promised by abolishing briefing alone is over 88,500 dollars a year; the saving in improved classification of records by the "decimal system" at 200,000 a year.

The Secretary of War reported to the President that he had requested the Commission to investigate

[1] Hearings before the Sub-Committee of House Committee on Appropriations, January 10 and 13, 1913, Washington, 1913.

the business methods of the Adjutant-General's Office in this connection. "The Commission recognizes that the work is done promptly and accurately, but finds that the cost is unnecessarily high. . . . The methods of handling a large part of the correspondence are antiquated and extremely complicated, and they estimate that under simpler and more modern methods a saving of over 300,000 dollars, or over 38 per cent of its appropriations, for employees' salaries can be ultimately saved to the Government without impairing efficiency. With the essential recommendations," says the Secretary, "I am in hearty concurrence, and I am glad to say that most of the chiefs of the respective bureaus also concur."

The Commission had, of course, in some cases to overcome the element of personal habit and what its Chairman describes as "the element of institutional custom, which is made up of a large number of personal habits that have been so attuned to each other that they constitute the process or processes of an office." The men of a bureau in the Navy Department "nearly precipitated a riot over the proposal of doing away with the practice of the office. They said it would throw the office machinery and all out of gear; that they could not do business in any other way with facility, and that this was the best filing system in the Government. The Committee reported with recommendations against that

bureau to the Secretary. . . . When the case was presented and argued by both sides before the Acting Secretary of the Navy, he said, 'That strikes me as being rather novel. I would like to see some illustrations of this method,' and there were turned over to him a number of cases. . . . He looked over quite a pile of them, and said, 'Is this what you are talking about?' 'Yes.' Then he said, 'This strikes me as being so absolutely beyond all reason, so inexcusably foolish, I will issue an order without hearing any more argument.'"

The strength of the Commission lies in the fact of its personal local inspection of actual working instead of "sending for persons, papers, and records," and taking merely oral evidence. Its experience is ocular and gets to bed-rock fact. The copying work done by hand for Government, costing several hundred thousand dollars, was reformed by an educational exhibition, in the Commission's offices, of labour-saving appliances specially adapted to Government work. 110 exhibitors participated, and over 16,000 officials visited the exhibition. Following these demonstrations, new methods of copying were introduced, which brought about a saving of over 75 per cent in offices where used for six months. The window-envelope, which has a portion of its face transparent, is the subject of a special report. It eliminates the clerical operation of addressing the envelope and the risk of error in copying the address.

A saving of at least 250,000 dollars per annum is promised from its adoption.

One further illustration must suffice. The Commission found that after careful test the largest railroad companies and industrial corporations were using the phonograph as an economical aid in the preparation of correspondence. One large corporation is using 150 of these dictation machines. Their use was opposed by the stenographers. But the Commission installed 16 machines in its offices, and set them to work for 10 weeks. Careful records were kept. The weekly average of the stenographic work never reached 30 words per minute, while the phonographic work in one week exceeded 61 words per minute, with a great saving in time not only to the transcriber but to the dictator. They say that this "is about the only labor-saving device that affects the departmental head personally. It increases his efficiency and gives him concentration and independence of action. All the other time-saving devices are for assistants with less valuable time and less demand for executive promptness, privacy, and high efficiency. To save the time of the person who directs others is of prime importance." The Superintendent of the Rural Mails Bureau at Washington, by an expenditure of less than 2500 dollars on these machines, reduced his staff by six persons, saving in salaries alone about 6000 dollars a year. Applied throughout Washington, and assuming the economies to be only half

those effected by private employers, the saving would exceed half a million dollars a year.

We cannot suppose the officials of the United States Government to be wicked above all other public servants, less receptive to new ideas, or less anxious to secure economy and efficiency. The moral is that even where the cost of labour is much lower than in America, great economies may be achieved by organised knowledge. Heads of departments are not, and ought not to be, selected because of their special acquaintance with labour-saving devices in clerical organisation. You do not require the captain of a ship to know what is the best type of marine engine, nor how the working in his engine-room can be improved. What Mr. Taft describes as "thorough inquiry by experts who are not charged with the grinding details of official responsibility," is an excellent method of securing practical reform in methods throughout all administrations. The methods of private business are progressive and of public business conservative. National economy requires that the gap should be continually closed up or bridged over as rapidly as possible.

Suppose your service now equipped with up-to-date appliances. The army is accoutred, but it has to march. Discipline and driving power are needed. Assiduity, industry, intelligence must be secured, and the remedies for gross negligence and serious default must be short, sharp, and decisive.

Such institutions as Councils of Discipline, composed of the highest functionaries, to adjudicate upon all delicts, however small, however clear, are not to be commended. The machinery is too cumbrous and heavy to be set lightly in motion. Delays are inevitable in getting together a number of busy people. Acquittals produce an awkward situation. There is always the danger that in any but the most flagrant and serious cases Heads of Departments may shrink from trying a remedy which may seem to them worse than the disease.

A fruitful source of waste in all Government services is the dead-head of exemplary character. Rightly or wrongly considered to be of little or no use, he is practically put on the shelf for all purposes except the receipt of a salary. You have decided when he retires not to fill up his place. But it may be many years before he is qualified for a pension by ill-health or by age. Meanwhile he is a burden upon the public. Like a useless machine, the unserviceable official, if nothing better can be done with him, should be scrapped at once, and you should have power, and exercise the power, to get him pensioned out of hand. "He is a very nice fellow," you are told, "and it seems hard upon him. One must have a little sympathy." But the taxpayer, frequently worse off himself, whose money you spend, whose servant you are, has the first claim upon your sympathy. The man of whom,

perhaps from your own fault, you are unable to make anything, may desire nothing better than to escape from an uncongenial atmosphere with the pension which he feels he has earned to find in private life a niche in which he can be of real service to his generation.

Scientific administration, in the sense of a well-organised arrangement for adapting means to an end, clearly requires the close collaboration of men of science where the need for scientific expert advice arises. You may muddle along without knowing that you need such advice, or you may set up a Commission, or call in an expert *ad hoc*. But without a properly organised scientific general staff you are ill-equipped. Is it a question of developing your natural resources, your agriculture, woods and forests, fisheries, mines and quarries, of varying your financial or commercial policy? The accidental, piecemeal treatment is a poor second-best. A synthetic programme framed by the expert knowledge of those who are able to take a wide scientific outlook is the first essential. It has been said that a good English lawyer may not know the law, but knows how to find it out. The trained scientist can tell you what it is you ought to know to enable you to deal with your problem, and how, if possible, the knowledge is to be obtained. Examine the lists of officials in various countries, and you will find here and there a Government chemist, a

Government biologist, a Government entomologist, a Government statistician—nowhere yet, so far as I know, a Government economist. In the main, the lawyer, the doctor, the engineer, and the architect are the only professional officers generally recognised by Governments. For other purposes an official who has picked up his knowledge in the service has usually been considered good enough to carry on. The twentieth century will undoubtedly see a great extension of specialisation in the employment of Government experts.

It is hardly necessary to add that in choosing candidates for the service, as in all other matters, the public interest must be your sole aim. You will be fortunate if you do not find in Urania anything to complain of in the methods of selection. People who would hold up their hands in horror at the deliberate acceptance of inferior stores, or at the purchase of commodities above their market value, have sometimes less sensitive consciences about the employment and the retention of the services of men who, how estimable so ever they may be in other capacities, are not good bargains for the State. Open competition, limited competition, selection by interviewing boards, direct nomination, or pure patronage have all their advocates. What intellectual attainments or training should be looked to for the higher staff is again much debated. Proved high aptitude to assimilate

dead languages, mathematics, natural science, social science may satisfy you that a candidate has a mind of good quality, but a great deal will depend upon his training and environment after his appointment. In some countries special importance is attached to a grounding in economics, finance, statistics, political science, constitutional law, history, and similar subjects. Capacity for handling these topics is considered to raise a strong presumption in favour of the type most likely to prove useful in administration.

It will probably be generally agreed that the public service should be recruited by independent authority from the fittest available, that the period of probation should be made a real test of suitability for permanent appointment, and that when good men have been obtained they should not be atrophied by stagnant routine.

We have contemplated organisation briefly in its static condition. We have next to consider it at work.

III

CONTROL OF EXPENDITURE

DEFERRING consideration of financial policy as to the objects of expenditure, let us consider the control of expenditure in its relation to economy. By what measures or machinery may Government ensure that expenditure is well managed, in other words, that it gets value for its money?

Control may be anterior, concurrent, or retrospective, internal or external. The primary responsibility rests with the spending department, which should be at pains to ensure that the credits asked for are not larger than necessary, and that when obtained they are well employed. But the preparation of the budget affords the Ministry of Finance an opportunity of criticising and modifying the demands of departments for the coming year. The practice of hanging up new proposals until budget time is intolerable in any but the smallest community. To ensure a maximum of prevision, the settling of the budget is deferred as long as possible, and if an avalanche of novel demands descends all

at once upon the Finance at its busiest moment, it is impossible to afford the necessary examination within the limited time available. Items may have then to be accepted without adequate enquiry or struck out because they are too serious to be admitted until they have had due consideration. Either course may be injurious to the public interest. So far as possible, all new proposals should be formulated in ample time for decision before the Estimates are framed. The task of seeing that the estimates of expenditure conform to previous authority in itself requires considerable time and attention, and ought not to be further complicated. This principle is easily enforced so far as numbers of staff, rates of pay, and new services are concerned. It is inapplicable to recurrent services of fluctuating expense. The provision to be made for, say, the rations of prisoners must, if the scale of rations remains the same, depend upon the estimated number of prisoners of different categories and the probable range of food prices. Even here, however, there is nothing facultative. The factors are fixed. Their evaluation alone is a matter of forecast. We come to a different category in, for example, the maintenance and upkeep of parks and gardens, where, in the absence of disturbing influences such as change of policy, alterations of wages, or other normal costs, past experience is our main criterion. Here and everywhere retrospect should take a wide

sweep. "We shall want the same amount as last year" is not necessarily satisfactory or conclusive. Last year there may have been some special expenditure on construction or reconstruction. Or going farther back you may discover that the normal level of expenditure was raised five or six years ago for some non-recurrent purpose, like the making of a lake, and that by inadvertence the total annual credit has not been brought back to its old figure. Your attention should be directed especially to actual expenditure, and not merely to the money provided in the Estimates. When year after year a considerable proportion of the money granted for some particular purposes has not been used, there is a strong *prima facie* case for cutting the provision down.

Estimates of expenditure should be logically divided, complete, and sincere. To classify a few leading heads of expense like salaries, travelling expenses, and stores, and to lump all the rest together under a large sum for *Dépenses diverses*, Miscellaneous, or Contingent Expenses, is to hide objects of expenditure and to make useful comparison impossible.

Provision for Public Works, in so far as it is normal, is included in the ordinary estimates. Works of magnitude involving considerable capital expenditure, and extending perhaps over several years, are in some countries put into an extraordinary budget,

met by loan, or by special credits which run on until the work is completed or the credit exhausted. These devices weaken financial control as compared with the rule of providing in each year only what is needed for the year, and requiring any unexpended surplus to be surrendered at the end of the year. The caution to be uttered here is that an eye must be kept upon future commitments. Suppose that twenty new buildings are asked for at a total cost of £600,000. You may not feel able to afford more than £200,000, but if instead of providing completely for half a dozen of the most urgent cases you allow the Department £100,000 for building three offices and another £100,000 for starting the other seventeen, you will find yourself confronted next year with commitments of £400,000 for buildings already in hand, which must be pushed to completion. To arrest works in progress, leaving idle capital already sunk in sites, foundations, and scaffoldings, and spending money to prevent deterioration or to guard the unfinished work, is bad business. On a large scale where irrigation, drainage, reclamation, afforestation, railway extensions, and similar works are concerned, you may be led, for the sake of a quiet life, to consent to a start being made this year if only a small beginning is proposed. But retribution follows later in the dilemma of stopping progress or of financial overstrain. Look well ahead to avoid compromising your future upon

programme works beyond what is imperatively necessary.

Assuming your Estimates to have been carefully framed in the Departments and to have run the gauntlet of Finance scrutiny, they have still in constitutional countries to face Parliamentary criticism. Such criticism, though often useful in the long run, is rarely immediately effective. Its utility is increased by furnishing Parliament with ample information and explanations in the Estimates themselves and in supplementary reports and memoranda. But the most that this criticism can ordinarily attain is a promise of consideration for the future. It is a salutary rule of Parliamentary procedure that the Estimates are not to be increased on the motion of a private member.

When the Estimates of a Department have been approved by Parliament they must not be exceeded without authority. If the excess on some heads is counterbalanced by a saving on others, the authority of the Finance ministry is usually sufficient. But if the total credit is exceeded, or if any considerable variation of a works programme is proposed, the authority of Parliament should also be obtained. How is the Finance to test applications for additional expenditure?

Suppose the Ministry of the Interior writes to say that, new duties having been imposed upon it by Parliament or by Government, it needs more staff,

and seeks authority to employ such and such officials at specified rates of pay. Beyond seeing that the grading, numbers, and salaries are *prima facie* reasonable you can offer little criticism upon this proposal and can only wait and watch. But suppose that you are asked to assent to an increased staff of telegraphists for Great Pedlington. Here you have statistics of the number of telegraphic transactions and you may be able to say, "When the staff was last put upon a proper footing you had so many operators for so many transactions. The work has increased by 10 per cent. Why do you want to increase the staff by 15 per cent?" Or again, "The business to be done is about the same as at Leoville. Why do you need 12 per cent more staff here than there?" Take a less simple case. The work at a Post Office counter is of a miscellaneous character, the issue and sale of Postal Orders and Money Orders, Savings Bank business, registration of letters, receipt of parcels, sales of licences, stamps, etc. The various branches of business have increased in different proportions. How can you measure the necessity for extra staff? The solution is to bring all the heads of business to a common unit based upon the number of operations of each kind which can be carried out in the same period of time. The number of transactions, say, for a year in each class multiplied by its appropriate factor can then be summed up into an index number,

by aid of which you can measure the proposal as against the work and staff at the last revision and against the service at other similar places or an average of such places. Such an employment of exact measurement wherever possible is one of the criteria of scientific administration, and should, of course, be applied within the Departments themselves. The foot-rule can be confidently appealed to in such matters as the candle-power of electric light needed for the floor space of (*a*) rooms and (*b*) corridors and passages, or the floor area and air cube needed for the accommodation of given numbers in offices, schools, barracks, hospitals, and prisons. In the examples given of the Posts and Telegraphs the measurement gives only a first, though valuable, approximation. At different times or in different places a disturbing element may be introduced, such as a difference in the number of hours during which the office is kept open. But the extent to which this new factor affects the comparison is often itself susceptible of measurement or approximate evaluation. Where some factors are incommensurable, you should still apply precise measurement so far as it will go. The residuum is more manageable and subject to narrower range of erroneous estimation than an unaided judgment of the problem in the lump. In fine, an intelligent application of statistical test is a powerful auxiliary of economical administration.

Take another illustration. The most fruitful

seed of discontent among wage-earners in the public service is inequality of treatment. The work of delivering letters by an urban postman is much the same everywhere, but equal money wages would be unfair seeing that local variations in the cost of living are considerable. The rule of thumb which formerly prevailed was to grade the wages according to the population of the centre, rents being usually higher in the larger towns. This was, however, a very imperfect method of groping after equality of real wages. Anomalies abounded. Aggregations of population such as Plymouth and Devonport, Manchester and Salford, Liverpool and Birkenhead, Newcastle-upon-Tyne and Gateshead, with virtually the same cost of living were separate postal entities with different rates of pay. Parliament was occupied with questions and debates about the exceptional circumstances and claims of men at A as compared with those at B. In a lecture upon Workmen's Budgets to the Royal Statistical Society in May 1893, I ventured to suggest that the Board of Trade should prepare an index number of the cost of living of a typical postman's family for each town, and that the wages should follow the index number.[1] The suggestion was some years later adopted and has proved effective for its purpose of keeping real wages on an even keel.[2] Gauge and standardise

[1] *Jour. Roy. Stat. Society*, June 1893.

[2] Sir Spencer Walpole, then Secretary to the Post Office, told me that the logic of the proposal was unimpeachable; but he added

wherever you can. Cost accounting is the great detective of waste and inefficiency. The cost of the Savings Bank business in Urania is 8d. per transaction. In another country it is only 4d. What are their methods, and is there any reason why we should not adopt them?

Outside the Department itself, outside Parliament and the Finance, comes Audit control, which is of the nature of a post-mortem examination. The work of audit, though it goes on from day to day, is an inspection of past transactions. Was the expenditure regular in point of form and authority, supported by proof of payment, and charged to its proper head in the accounts, viz. the head in which it was provided for in the estimates? Has the Department kept within its grant, accounted properly for any receipts, and charged its expenses within the proper period of account? Such questions evidently go rather to form and regularity of procedure than substantive merit. They do not trench upon policy on the one hand or administration on the other, in the sense that they do not question the wisdom of the order to spend or the adequacy of the results obtained, though the Auditor-General in this country will, in practice, call attention to any obvious waste or extravagance which may happen to come to his notice through the accounts themselves.

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regretfully that he feared that it was "too scientific to be adopted in our time."

His report to Parliament (or in most countries to the Head of the State, who lays it before Parliament) is the starting-point for investigation by the Finance or by such a body as the Public Accounts Committee, and in the last resort Government may disallow an improper payment, for which the accounting officer then becomes personally liable. It is essential that Audit should be independent, external, and quasi-judicial. The usual Continental practice is to set up a *Cour des Comptes*, closely analogous to a High Court of Justice, to examine the accounts, to summon before it for oral examination the responsible officials, and to give a certificate of discharge of responsibility. The deterrent effect of inexorable scrutiny after the event is a powerful stimulus to regularity. In Italy the visa of the *Cour des Comptes* is required before expenditure can be incurred. So far as I can form an opinion, the advantages of this form of preventive control are of little practical value and are outweighed by the disadvantages of complication and delay.

To attempt to audit every financial transaction would be ruinously expensive and dilatory. In exceptional cases it may be desirable to check every item, but in many cases a test audit is sufficient, extending, it may be, to 50 per cent, 25 per cent or even less of the whole, and putting particular items or different groups of items, varied from time to time, under the microscope. A test of this kind must be

thorough and have the element of surprise. If the items of expenditure in a given period, *e.g.* a month, are entered on a list, numbered consecutively and supported by vouchers, a general order to examine say items 1, 5, 9, 13, etc., every month will soon become known outside the Audit Office, and the account can then easily be rendered in a form which will protect 75 per cent of the entries from scrutiny. To circumvent this it is sufficient to vary the order each month after the accounts have come in, specifying the numbers to be selected for audit. If the test audit discloses irregularities, a closer, and possibly a complete, audit of the doubtful account is indicated. The besetting sin of audit is to be content with surface appearances — satisfying itself that the vouchers are in order. It has been said that this is a work almost of supererogation, seeing that it is in the nature of a voucher to be in order, otherwise it would not be a voucher. But the auditor must clearly be satisfied of its existence, and ought now and then to test its reality or he may be fobbed off with what is called in France a *mandat fictif* —a voucher for some regular service like conveyance to cover what was really a purchase of unauthorised furniture. A truly efficient audit endeavours to go behind the voucher, to exercise imagination, comparison, and special knowledge to discover any *prima facie* irregularity which can be followed up by minute investigation. The auditor

is not encouraged to probe administration in an effort to discover such things as an excess of staff. His primary function is to examine the accounts, to which alone his queries are directed. This limitation has led to suggestions that the auditor should have a wider scope and be expected to report whether money's worth is obtained for expenditure, but the general consensus of opinion is that administrative business of this kind is beyond his proper function, and that he has enough to do in looking closely into the accounts after payment. Anything like obstruction or antagonism to audit proper is not for a moment to be tolerated. The feeling that audit is a hostile, tactless, interfering inquisition rapidly dies down under proper management. Far away and long ago a prominent English official complained to the British representative that his claim for travelling expenses had been queried in respect of insufficient detail and vouchers. "It is a gross outrage!" he exclaimed. "Do they think I am trying to cheat the Government?" "My dear fellow," was the soft answer, "I often play a rubber with you, which I should not do if I thought you capable of cheating. But when I pass the cards for you to deal I always cut them first." This appeal to the rules of the game was effective. The auditor is in fact a colleague and collaborator in the public service. Heads of Departments should welcome his observations as co-operating towards the economy and

regularity which it is their duty to ensure, and not chafe under them as if they were a stroke of gratuitous malevolence.

Here then are numerous checks upon expenditure, the initial care of the Department, the examination by the Treasury of the need of new credits, the consideration of estimates by Parliament, the scrutiny of the audit, the examination by Parliament of the closed account. Is all this sufficient? Or is there still a blind spot? I take an extract from evidence given before the Public Accounts Committee on the 19th May 1862, by Mr. Arbuthnot of the Treasury:

"In the year 1828 a Finance Committee of the House of Commons was appointed, to consist of 21 members, amongst whom were the most eminent financial authorities of the day; for instance, Sir Henry Parnell, Chairman; Mr. Goulburn, Mr. Herries, Mr. Tierney, Lord Althorp, Mr. Hume, Lord Howick (now Lord Grey), Mr. Alexander Baring, Mr. Stanley (now Lord Derby), and Mr. Huskisson. In page 5 of their Report there is this passage: 'The Committee particularly desire to draw the attention of the House to the fact, that the ancient and wise control vested by our financial policy in the hands of the Treasury over all the departments connected with the public expenditure has been in a great degree set aside. Although it is the practice to lay the annual estimates before the Board of Treasury, the subsequent course of expenditure is

not practically restrained as it ought to be by one governing and responsible power, but remains too much under the separate management of the departments. The want of a constant check over the expenditure, which is the consequence of the departure from the old and constitutional course, has established a scale of expense greatly beyond what existed during the former periods of peace. Each department naturally endeavours to exalt its own importance, and wishes to promote its general efficiency and to have everything in it complete and perfect; hence the desire to secure these objects, rather than the exigency of the public service, has had too much influence over a great part of the public expenditure.' In page 6 there is this other passage: 'With respect to the next great object to be secured, namely, the establishment of an effectual control in the hands of the Treasury, this is nothing more than the restoration to the Treasury of its ancient authority. . . . It is expedient not only to restore this control, but to secure it from being again set aside, which cannot be effected, except by the House of Commons constantly enforcing its application, by holding the Treasury responsible for every act of expenditure in each department.'"

Observe the sweeping character of these last words, quoted with approval by Mr. Arbuthnot. They amount to an assertion that it is not enough for the Treasury to consider how much spending power should be allowed to each department, but

that it should be held responsible for seeing that the money so spent is well applied.

The Exchequer and Audit Act of 1866 embodied many of the recommendations of the Committee of 1828. But in 1902 the House of Commons, feeling that the financial control of Parliament was still susceptible of improvement, appointed a Select Committee "to inquire whether any plan can be advantageously adopted for enabling the House, by Select Committee or otherwise, more effectively to make an examination, not involving criticisms of policy, into the details of National Expenditure." This Committee reported "that the examination of the Estimates by the House of Commons leaves much to be desired from the point of view of financial scrutiny. The colour of the discussions is unavoidably partisan. Few questions are discussed with adequate knowledge or settled on their financial merits. 670 Members of Parliament, influenced by party ties, occupied with other work and interests, frequently absent from the Chamber during the 20 to 23 supply days, are hardly the instrument to achieve a close and exhaustive examination of the immense and complex estimates now annually presented. They cannot effectively challenge the smallest item without supporting a motion hostile to the Government of the day; and divisions are nearly always decided by a majority of members who have not listened to the discussion."

The Committee recommended *inter alia* the adoption of a proposal made to them by Mr. T. Gibson Bowles, that at the beginning of each session one Class of the Estimates should be referred to a Select Committee for examination and report precedent to the votes being discussed in Committee of Supply, and that such Select Committee should have power to send for persons, papers, and records. This recommendation was adopted in 1912 by setting up an Estimates Committee.

An Estimates Committee with power to send for persons, papers, and records is evidently a more efficient critic of Estimates than a Committee of Supply. A departmental Committee or an inter-departmental Committee is perhaps still better equipped for coming to close quarters with its subject, seeing that the members can question the expert witnesses with some special knowledge and qualifications. But in such a process as the pruning out of dead wood, a Committee can only by some happy accident be really effective. Nothing short of local, personal, immediate inspection is likely to get at the whole facts of faulty economy. Listen to a few extracts of evidence from experienced officials: "In the case of inquiry by a Committee—an inquiry by verbal cross-examination by a body not so well acquainted with the subject-matter as the persons actually examined before them—the power of the Committee is to a certain extent limited. A clever

witness, knowing his subject very very well, can, to a certain extent, I will not say elude, but maintain his own position against cross-examination. He is more or less put upon his defence, and the attitude of his mind would naturally be that of defence." [1] "Any form of local inquiry or any form of inquiry which is in touch with the actual facts . . . is more fruitful than a verbal inquiry unaccompanied by an examination of the facts." [2] "I am more and more anxious to be able to deflect my men from the accounts branch of the War Office and to send them, as one may say, on roving inspections locally, to ascertain to what extent the local regulations are observed, and to what extent, in the first place, the people are conforming to such rules as they have; and in the second place, to what extent they are performing their work economically. I can do much more in that way than I can by any central inquiry at the office itself, where, if I inquire, I am met with explanations which I have not the details before me sufficiently to check." [3] "Local inquiry would correct whatever tendency to extravagance there might be locally, for instance, if there were a tendency not to dismiss a man who was perhaps redundant, or to keep the supporting statements for expenditure in a slipshod or haphazard way." [4] "You may go to the head of a Department and say, Do not you think

[1] Mr. (afterwards Sir F.) Marzials, Accountant-General of the War Office, Q 54, House of Commons Paper 242 of 1903.
[2] *Ibid.* Q 88. [3] *Ibid.* Q 29. [4] *Ibid.* Q 98.

you can economise here or you can economise there? But you are bound to go by what he answers. You do not know how all his staff are employed, and therefore unless you have the head on your side it is very difficult to effect economies in a Department."[1]

Departmental local inspection may, up to a point, be efficacious in surmounting the difficulties here alluded to. But it cannot be so independent or widely informed as an inspection ranging over all departments, able to extend reform and modernisation everywhere. Assuming an extension of the Audit Office for such purposes to be ruled out, Finance Inspection is one obvious alternative, and in some countries is already regarded as indispensable. The Finance Inspectors are the eyes and ears of their Ministry. They visit Departments by surprise, examine their accounts, which are as full of revelation to a skilled eye as a pass-book, watch their operations, apply special tests, compare one Department with another, one method with another, work out comparative costs, and get down to bottom rock. They discover weaknesses which would probably never be otherwise revealed. Heads of Departments consulting their Assistant Secretaries, who consult their Principal Clerks, who consult their subordinates in a similar chain, obtain information which levitates nearly from the bottom and reflects the intelligence

[1] Sir E. Gorst, Financial Adviser in Egypt, House of Commons Paper 387 of 1902, Q 288.

of worthy officials whose outlook is very narrow, and it is hardly to be expected that the question, "Can we reduce our recurring expenditure?" put in this way will yield very fruitful results. Here are officials who resignedly persist in an expensive course under a mistaken sense of discipline. "It is very stupid, but it is the Board's orders." Or, "It is necessary in order to comply with the financial regulations." If the facts were known it might be found either that there is a misapprehension as to the intention of the orders, or that the superior authority, if informed, would wish to vary the instructions. It is for such reasons as these that stories of Government waste, ineptitude, and delay are the perpetual gossip of life, and that Lord Sudeley has proposed a clearing house of information within the personal knowledge of private individuals as to official extravagance, the information to be passed on privately or openly to Government. Such a scheme would result no doubt in a plentiful discovery of mares' nests as compared with the reports of an expert Finance Inspector. The War has already evolved the Economy Lady as a private visitor. An official Economy Gentleman in Government offices is at least equally thinkable. It may be suggested that Heads of Departments would resent his visits. Any such feeling would die down as rapidly as repugnance to Audit. Hear two further experts: "I think that the Treasury control upon the public expenditure at present is weak, and

that it is owing in a great measure to a defective knowledge of the actual proceedings of the departments."[1] "Do you think that the check will be best vested in the Audit Office or in the Treasury, or in a joint check, or in what way would you recommend? —I think that it is part of the machinery of the executive arrangements, and that it ought not to rest with the Audit Office. I think that the Audit Office, if they do their duty in looking closely into the accounts after payment, have quite sufficient to do; but my opinion is that the machinery should be established by the Treasury, and be under the immediate inspection of an officer of high standing, who shall have influence in all the departments that he may visit, and carry with him the power that he may have deputed to him by the Chancellor of the Exchequer."[2]

On the other hand, it is urged that external inspection of this kind would be a mistake, that economy must come from within, that you must trust the man on the spot, coming down heavily upon him after the event if he is found to be to blame, but that there is something wrong about any attempt to set an outsider to work to teach people their business. Objection on the ground of interference may have short shrift. "I don't want the

[1] Sir W. G. Anderson of the Treasury, House of Commons Paper 375 of 1856, Q 4184.

[2] Sir R. M. Bromley, Accountant-General of the Navy, House of Commons Paper 467 of 1862, Q 54.

Factory Inspector intruding in my workshops," or, "I don't approve of the Sanitary Inspector poking his nose into my cottages," is met by the answer that paramount national considerations must prevail over the feelings of the employer or the property-owner. The Finance Inspector is not even an outsider. He is one of the national stewards looking into the national business, a fellow-servant of the common master. It is all very well to come down heavily upon what is wrong when it is found out, but the first essential is to find it out. How is the Head of a Department immured in his room, with perhaps an army of men scattered about the country, to discover waste? Unconscionable delays, neglect of duty, serious blunders may come to light in their consequences, but so long as work is promptly and accurately done, nothing calls his attention to the fact that officials here and there are ploughing the sands. Let me interpose two anecdotes. In bygone days an Empress of Russia stopped in a public park to admire a rose tree, which was at once devoted to Her Majesty's service and a sentry posted over it. Years passed. The tree disappeared, the Empress died, the park was converted to other uses. The sentry remained. Day and night the relief guards and their officers fulfilled their duties in the spirit of men whose business it is to obey orders and not to question them, until some happy accident brought to light the futility of their task. Farther East an

account of confidential services provided annually a round sum for "a Mrs. Gordon." Subordinate eyebrows were raised and shoulders shrugged year by year over this mysterious item, until some daring investigator found the entry to be corrupt. A careless copyist had perverted the original entry, "Amir's garden," and the error had been perpetuated. Meanwhile the garden was no more. The very Amir was not.

In these particular cases little harm was done, but examples abound of costly survivals of obsolete services in foreign civil administration which Audit is powerless to touch. Authority—none the less venerable because ancient—exists for the payment. A receipt vouches for the expenditure. Everything is in formal order. But the dead wood is not pruned out. There is no value for the money.

Far more dangerous than oversights of this kind are works of supererogation. A competent official may call attention to the fact that special accounts or records have survived their *raison d'être*, but he may refrain from offering criticism upon unduly complicated or laborious and therefore expensive methods. In an obituary notice of Lord Welby, one of his admirers records with gusto a favourite story of the great man. A young clerk came to him one day with a suggestion for reform. "Do you know," asked Welby, "how So-and-so made his fortune?" "No," said the junior, eager to learn.

"By minding his own business!" was the answer. History does not record whether the clerk was persistent enough to ask, "And what is our business?" but a worse answer could hardly be given to a zealous subordinate. Imagine him hereafter, convinced that business could with great advantage be short-circuited. If he is too timorous to risk another snub, or too prudent to compromise his own future, he will keep silence rather than run the risk of being thought tactless, pushing, meddlesome, and opinionative. "He criticises my arrangements to-day," thinks his chief; "he will criticise me to-morrow. I do not trust him." "I cannot recommend him for promotion because I do not trust him," is a bar behind which the fairest-minded Minister can hardly penetrate.

Such cases, it may be hoped, are less likely to occur than those in which there is an ignorance of better methods, and this is the strongest of all reasons against leaving economy to departmental initiative. A Finance Inspector asks, "Is not a good deal of this work unnecessary?" "We have always done it this way," he is told, "and do not know of a better." "But," he replies, "if you go and see such and such a department you will find that they have a much simpler and better plan." The worst are thus brought up to the level of the best. Ignorance is the mother of timidity. An old-time official, now deceased, who had an Asiatic

dislike of change, extinguished one after the other suggestions, since adopted, with a formula of which he was the proud inventor: "Even if this were possible, which is not probable, it would not be practicable." When you can point to the accomplished fact of successful experience, you can blast away this form of obstruction.

The American Commission is an admirable example of the value of this searchlight function of independent expert scrutiny. Even the Finance Inspector is subdued to what he works in. He may succeed in bringing the backward departments up to the level of the best, but the American Commission brings in a whiff of intelligence from the outside world, and is able to suggest methods better than the best prevalent in the public service. Here you have five experts concentrating their brains upon the problems of general economy. They go round to see for themselves, pick up information with the power and flexibility of an elephant's trunk, and bring everything possible to the test of cost accounting, the ton mile, the passenger mile, the cost per 1000 transactions, and the like. But over and beyond this they study outside methods and have the benefit of outside suggestions. I can hardly doubt that their proposals for the better utilisation of waste are stimulated in this way. They report, for example, that instead of destroying the paper currency of Government in the old-fashioned

way, the paper should be "de-inked and defibered" by modern processes and used again. The result is a saving of 100,000 dollars a year as compared with the old maceration. Valuable information is often forthcoming from within the service, especially when it refers to the waste of other Departments. The newly-appointed head of a Statistical Department abroad asked why the bill for electric light was so heavy. He was told that it seemed to be normal, about the same every year since the light was installed. "But," he said, glancing at his lamp, "since these metallic filaments were introduced the current should be less." "I am afraid," said his clerk, "that yours is the only lamp of that type. It appears that there is a large stock of carbon lamps, and we are told that they must be used up before any change is made." "In my study at home," says Jones, "I am as warm as I am here where the old-fashioned grate burns three times the fuel I use in my own room, which is equally large. But the Public Works tell me they only put modern grates in at new offices or where the old grate is worn out, so I suppose this will go on for another generation." Conscious as they are of each other's defects, officials are full of information valuable to the independent visitor. But it comes out remorselessly under the hand of the statistician. The American Commission found that the Supervising Architect of the Treasury, operating some 700 or 800 buildings,

had no data on the economy of their management—nothing to show the lighting cost per hundred square feet of floor space used, or the heating cost per hundred cubic feet of enclosed heated space, or the cost of cleaning the buildings. When the figures were compiled and sent in the Commission found a variation that ran as high as 1000 per cent between different buildings.

In this great organon of exact measurement you have the really scientific instrument of controlling expenditure. Estimates, predictions, opinions, assurances, impressions are one thing; sizing-up results is quite another. Provided this instrument is skilfully employed it matters little whether it is in the hands of a special department of the Audit Office, or the Finance, or a small separate body of experts like the American Commission. But its skilful employment demands special qualities, minute knowledge based upon personal local inspection, a wide outlook, and scientific method. Correspondence, examination of witnesses by Committees, and other time-honoured devices will without it fall far short of such results as it is possible to attain and fair to expect.

IV

REVENUE AND ADMINISTRATION

REVENUE brings us into close relation with National Economy in its Continental sense of Economics Pure and Applied. This is particularly true of Taxation and its incidence. I propose now to offer some general considerations upon various forms of revenue, with special reference to administration.

Direct taxation may be broadly defined as taxation which cannot, like indirect taxation, be passed on in whole or in part to other persons. An importer of tea, for example, pays customs duty upon it, but gets back the duty from the merchants to whom he sells his cargo. These recoup themselves in turn from the retailer, who recovers the tax from his customer, the final consumer. An indirect tax thus strikes, as it were, a glancing blow, while the direct tax, which cannot be shifted, strikes where it falls. A land tax falls upon the landowner upon whom it is first imposed, and a new land tax may be regarded as a *pro tanto* confiscation of real estate by the Government. What is called a land

tax is, however, in some cases a rental, the whole land having originally belonged to the State, which gave up its occupation in return for a perpetual charge. In Egypt, where agricultural land is freed from taxation if it receives no water from Government, or pays a reduced tax if it gets less than an adequate supply, the tax partakes also of the character of a water rate. But in all countries the tax, if of ancient date, is very seldom a burden upon the present owner or occupier, the land having changed hands subject to taxation, and the tax charge having been taken into account by successive purchasers precisely as if it were a mortgage or tithe rent charge. A convenient method of considering in general the incidence of taxation is to seek who would profit by its reduction or abolition. But in the case of the land tax such relief would be a mere present to the actual owner, the burden having fallen entirely upon an ancient predecessor, by whom the shock was absorbed. A land tax in the nature of a settlement, in countries where the land is fully occupied, varies very little in its yield from year to year. Population, wealth, and the needs of Government may increase, but the land revenue does not progress. You can reckon with some certainty upon getting it in, but it has the drawback of being inelastic.

Income Tax is now a feature of most financial systems, and in some of them is supplemented by

a tax upon capital. You may turn for examples to Holland, in which the two are combined, or to the general property tax in the United States, or to our own Estate Duties. Taxes upon income and capital give you valuable information as to the amount and distribution of the wealth of the country, are capable of variation without upsetting trade or commerce, like new taxes on commodities, and are elastic as well as direct. If the wealth of the country receives an unexpected set-back, and you have a bad year of revenue from income or capital, the wind has been tempered to the shorn lamb, which is not the case where taxation is imposed upon staple foodstuffs, and hits the poorest classes not only relatively but absolutely harder than the wealthier classes.

The Income Tax in this country, once described by Mr. Gladstone as "not a tax but a system of taxation," has since become vastly more complicated. It is now progressively graduated, distinguishes between earned and unearned income, a super tax is grafted upon it, new abatements, allowances, and exemptions are conceded, and what is known abroad as "administrative law" with regard to it has received considerable development. You are familiar with Adam Smith's doctrine that one of the canons of good taxation is certainty. "The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contri-

butor, and to every other person. . . . A very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not near so great an evil as a very small degree of uncertainty."[1] What Bentham said of law in general is particularly true of tax law: it should be *cognoscible*. In the tangle of legislation by reference and the maze of decided cases the British income taxpayer is frequently involved in more than "a very small degree of uncertainty." See to it that your taxpayers in Urania do not suffer aggravated irritation by unnecessary doubt as to "the quantity to be paid"—a doubt which consumes much valuable time and adds to the trouble and expense both of the taxpayer and of the revenue department.

Such indirect taxes as Customs and Excise are more expensive to the consumer than appears on the surface. Apart from the cost of the revenue departments, the time and trouble of those who pay the duties must be taken into account, and allowance must be made for the fact that the duties have a snowball tendency to increase as they pass along. The importer must pay the duty in cash before he can clear his goods. Ready money is a valuable commodity, and in an active business where it can be rapidly turned over expects a high return of interest. The importer sells his goods, say, on a three months' bill. He will calculate his profit over

[1] *Wealth of Nations*, book v. ch. ii.

all—prime cost, duty, expenses of bonding and clearing, and the risk of bad debts—considerably exceeding the prime cost. The process is repeated from hand to hand, perhaps finally by a retailer whose bills are rendered monthly. The ultimate charge in respect of customs, falling upon the consumer, may thus be appreciably higher than the original duty. The Financial Reform Association in the height of its activities drew a formidable indictment against indirect taxation on such grounds as these. It also alleged that among other evils customs duties tended to give a monopoly of the import trade to wealthy traders, who could afford to find sufficient cash to clear whole waggon-loads at a time instead of being at the expense of carting away goods in driblets. The statement was frequently made in Parliament that less than 50 per cent of the charges made to the public in consequence of the customs duties and formalities found its way into the Exchequer. The immediate rise in price when customs duties are increased, or the immediate fall when the duty is repealed, frequently exceeds this percentage.

Specific duties which have no regard to quality penalise the consumers of cheaper varieties, as when cigars worth only 7 shillings per 100 pay the same duty per lb. as those worth £7. On the other hand, *ad valorem* duties are troublesome and expensive to collect. Numerous and highly paid experts must

be employed. Extra safeguards against fraud and collusion are required—*e.g.* a consular certificate, for which a fee must be paid, in the country of origin. Energy is expended in discussion and appeal. The power of pre-emption—the right of the Customs to purchase at declared price or something below it—and the power to take payment of the duty in kind may alike, if exercised, saddle Government with a collection of miscellaneous articles of which it is ill fitted to dispose. In many cases the object is indivisible without destruction or loss of value. You do not want to take a fraction of a motor car, a piano, or a work of art, or an odd piece from a set of china or furniture which has little value by itself and impairs the value of what is left. A palliative for the arbitrary action of valuers and a safeguard against corruption and deception is found in so-called tariffs of value, settled by agreement between the Customs authorities and representative traders. In the textile trades, for example, a list is prepared of perhaps a hundred varieties of piece goods, running into such detail as the number of threads per square foot. Each article on the list is priced, and the list holds good for valuation until the Customs or the trade denounces it. A meeting is then held with a view to settling a new schedule. A glance at the Statistical Abstract of any of the principal countries shows how wide and varied are the categories of imports. A score of schedules will cover but a

small part of the ground. As recently as 1841 there were over 1200 heads in the Book of Rates in the British Customs, and Free Trade admittedly brought about a great simplification of accounts in business as well as in administration. An all-round *ad valorem* tariff would be vastly more complicated than anything of which we have had experience. The idea that such a tariff, if uniform, would "treat everybody alike," and be equally fair (or equally unfair) to all enterprise, need not be seriously considered. The schedule system of valuation is applicable only to articles which admit of standardisation. In effect it substitutes for the *ad valorem* duty a number of temporary specific duties upon different types of a commodity.

Indirect taxes like the Customs and Excise are elastic in the sense that they reflect the greater or less activity of trade so long as the rates remain unchanged. It was, however, in a different sense that Mr. Gladstone used the phrase "the elasticity of the Exchequer," which enabled him in certain cases to secure a greater revenue by reducing duties, the increase in consumption following upon a lower price more than compensating for the lower rate of duty. Conversely Swift observed that "in the language of the Custom House two and two do not make four," or, in other words, doubling a duty may yield much less than double the revenue. These taxes are also elastic in the sense that if low or moderate in

amount they can usually be raised in emergency to yield a higher return.

Stamp duties are duties collected by means of stamps, and their distinctive mark is thus a matter of administrative practice. Where the stamps are affixed by the public the collection may almost be called automatic, as in the case of cheques, bills of exchange, contract notes, and deeds which have no legal validity until properly stamped. Where the stamps must be affixed by officials they are a valuable safeguard against peculation, and greatly simplify accounting. Suppose that each passport requires to bear a shilling stamp, and that you supply the official in charge with a hundred stamps. All that is needed is to see that he has always in hand a hundred shillings in stamps or money or both combined. As his stock of stamps dwindles his cash increases, until he replenishes his stamps by using cash in hand to buy a fresh supply from a superior official. It is unnecessary for him to keep any cash account of each transaction, and impossible for him to make mistakes at the expense of the revenue. Licences have the same advantage, each licence having a face value for which the issuing officer is responsible.

Mr. Gladstone, in many respects a bold financier —so bold that he once proposed the abolition of the Income Tax—was very timorous of meddling with stamp duties, which touch the habits and life

of the people. Professor Jevons's monograph on the Match Tax[1]—a masterly essay on Taxation which you will do well to read—criticises the receipt stamp, which was then separate from the postage stamp, as costing a great deal more to the country than it yielded to the Exchequer, owing to the fact that persons had often to make a long journey to obtain a stamp in order to give a valid discharge. Since that time the ordinary penny postage stamp has been made available for inland revenue purposes.

A tax upon inheritance in the form of probate, legacy, succession, or estate duties is justified, as Jevons said of the receipt stamp, by the fact that the recipient is at the moment in a position to contribute to the State something out of what he receives, which in the case of inheritance is somewhat of a windfall. The more remote the consanguinity the greater is the degree of luck or good fortune, and proposals have often been made that when the next of kin is far removed in blood the estate should wholly escheat to the public. Godin, in his *Solutions Sociales*, goes so far as to recommend the total abolition of the power of bequest and the right of succession, the State becoming the universal heir. Only so, it is urged, can equality of opportunity be offered to the next generation. But even if such a scheme were not frustated by *donationes inter vivos*, there is the important consideration that

[1] Reprinted in his *Principles of Economics*, 1905.

the freedom of testation is a great stimulus to exertion and saving. The output of wealth might be seriously checked, and dissipation by consumption take the place of accumulation, if it were known that a man's surviving family could derive no special benefit from his savings. The argument against Estate Duties, that being a tax upon capital they weaken the productive powers of the nation, is valid only if the State fails to employ its resources as productively as the individual. The usual assumption that this must be so is not necessarily true. A tax upon capital does not destroy the national capital, but redistributes it. Whether in new hands it is more or less efficient depends upon circumstances about which it is well not to dogmatise.

Licences or permits are á source of revenue the amount of which is usually determined by a balance of considerations. Their incidence is generally direct, in the sense that the licensee cannot pass on the charge to a third party, but they may in addition have a repercussion more or less serious upon other persons. Dog licences and gun licences may, if considerable, restrict the business of those who sell dogs and firearms. A licence to keep a male servant might conceivably be high enough to diminish the demand for men-servants to such a point as to depress their wages. Licences to carry on a particular trade, *e.g.* an auctioneer's licence, might be screwed up until the ranks of the auctioneers were

thinned, or they might agree to raise their scale of charges, in which case, if business was not deterred, the incidence would be indirect. But even in the first case, assuming that the scale of charges remained unaltered, and that the auctioneer recouped himself for the tax by profits on business which would have gone to a squeezed-out competitor, the public has a smaller choice of auctioneers, possibly a smaller choice of days for their auction, and may therefore be more or less affected by the tax. In such a case as the fee for permission to occupy a public place, to set tables and chairs on the pavement outside a café, regard may be paid to the commodity of customers, to the discommodity of pedestrians, to the pecuniary advantage of the shopkeeper, and to other considerations. Licences which may be withdrawn in case of misconduct are useful as measures of police.

A licence to use armorial bearings—a direct tax of the simplest character—is one of the few examples of what Mill regarded as the best of imposts, a tax upon vanity. John Locke considered taxes upon foreign lace and French wines as coming within the same category, on the ground that the higher their price the greater was their attraction to persons who desired to make a display of wealth. But vanity is a sensitive plant, and the principle is of little working value to the financier. In fixing the amount of such taxes regard need only be paid

to fiscal considerations, that the yield of revenue should be a maximum.

I have referred briefly and by way of illustration to the difference between direct and indirect taxation, because really direct taxation has the practical advantage that you know out of whose pocket it comes, even though in particular cases it may cause inconvenience and expense to third parties. But a general discussion of the incidence of taxation belongs to economics and financial science rather than to administration; and I must refer you to the textbooks, especially to Professor Seligman's *Incidence and Shifting of Taxation*,[1] for a full consideration of the subject.

When we come to the category of fees we find certain services rendered by the State to specific individuals in return for a special payment. If I go to Somerset House to search for a will and ask to be provided with a copy of it, the general taxpayer ought not to be charged with the expense of meeting my requirements in which he is not interested. On the other hand, it would be unconscionable to tax or penalise me by requiring from me a much larger sum than is required to recoup the Government for the special expense to which it is put. Professor Plehn[2] illustrates the nature of fees by reference to the usages of clubs in which

[1] 2nd ed., New York, 1899.
[2] *Introduction to the Science of Finance*, New York, 1909.

members who pay an annual subscription are entitled to certain general privileges, but those who put the club to special expense by requiring the services of a golf-caddie or a ball-boy at tennis, are required to make a special payment to indemnify the club for its extra expense. It follows that fees, properly so called, add little to the net resources of Government, being usually set off by the cost of the service in return for which they are collected. Bentham was of opinion that judicature fees should be abolished, on the ground that the duty of the State is to enounce the law in an intelligible form, and that private citizens ought not to be mulcted in fees in the process of discovering what the law really is. But many civil lawsuits are a mere matter of hard swearing, and do nothing to elucidate the law. On the whole it seems fair that civil litigants should bear the cost of composing their disputes, but the administration of justice should not be turned into a revenue department by recovering more than the cost of its proceedings. Criminal justice is undoubtedly a fair charge upon society in general.

The direct and indirect cost of administering civil justice has an important bearing upon National Economy. Egypt, so long a prey to international jealousies, is a striking example. There is much truth in the Persian proverb that the delay of justice is worse than its denial, and when English merchants find that legal proceedings are as technical,

interminable, and costly as in the old Chancery Courts, and the issue vastly more uncertain, it can hardly be wondered at that they are shy of business in a country which appears otherwise to offer an admirable field for enterprise and the investment of capital. It cannot be said that the Mixed Tribunals of Egypt are underpaid or undermanned. But to allow commercial suits to fall grievously into arrear through financial parsimony in respect of the number of judges would be a grave offence against National Economy. This is one of those cases in which, as Burke said, the road to economy lies not through retrenchment but through expense.

When the State engages in quasi-commercial enterprise, the charge which it makes for its services is variously spoken of as a fee, a toll, a price, or a rate. The American writers favour the word "rates" in this connection; but though we sometimes speak of postage rates, telegraph rates, and railway rates, we usually understand by "rates" the sinews of local finance. I shall therefore use the word "tariff" to describe the scale of charges of a commercial character. The question what enterprises should be undertaken by the State is one of expediency or utility. Whether railways, for example, should be nationalised may depend largely upon geographical considerations. A country like England or the United States may have less reason for taking railways into the hands of Government than a

country which may need to regard railways primarily from the point of military strategy. It will perhaps be generally agreed that when the balance of advantage is otherwise fairly equal there is a presumption against adding to the burden of the Government Atlas a task which can be as well performed or very nearly as well performed by private enterprise. The presumption is greatly increased when public administration generally is ill-organised or ill-conducted.

Assuming that on grounds of policy the business of the Post Office, the Telegraphs, the Telephones, or the Railways is nationalised, what principle should be followed in fixing the tariff of charges? Ought the enterprise to be carried on at a profit and so made a Revenue Department, or ought it to be conducted on the basis of paying its mere cost or even something less? Professor Adams takes the view that no profit should be made; but it is difficult to accept this principle if the service is one from which taxation might properly be extracted if it were in private hands. There is no reason why the State should sell china, or medals, or matches, saltpetre, gunpowder, etc., at cost price, or why a Government monopoly of alcohol or tobacco should not yield a substantial surplus. The consumption of such commodities does not need to be stimulated in the interests of the national well-being. When there is a good case for a tax there will usually be sound

reasons for a profit which, though it may be classed as non-tax revenue, is equivalent to taxation in so far as it is a true profit. Here we come to an important consideration. The annual surplus of the British Post Office has often been criticised as an undesirable tax upon communications. But how much of the surplus is really profit? To compare the Post Office Revenue with the Post Office Vote is very misleading. There is on the one hand unpaid service rendered by the Post Office to other Departments. On the other come services rendered without charge to the Post Office. The capital sunk in the business is enormous. Land, buildings, furniture and fittings, mail-carts, motor vans, cycles, pillar-boxes, innumerable articles of longer life than a year, would justify a commercial concern in charging considerable sums for interest and depreciation before declaring a profit. If the Post Office were capitalised as a going concern, interest paid on the capital, provision made for a pension fund, and income tax charged on the net profit, the resulting surplus with the present tariffs and present management would probably be a very small matter. In Government as in municipal enterprises an apparent profit often vanishes under scrutiny. The fact that Government enterprise is carried on at a loss does not necessarily prove either that it ought not to be undertaken or that the tariff should be raised. High considerations of social utility may

make it desirable that certain services should be rendered by Government at less than cost price or even gratuitously, a charge falling upon the general public revenue in return for the general interest promoted. The free supply of glycerinated lymph for vaccination purposes is a case in point.

Whether Government lands should be cultivated by the State on its own account, let out to farmers, or sold is discussed at length by Professor Adams in his work on Finance, to which you may refer. In general, the sale of such lands is sound policy except in so far as they may be needed, say, by the Ministry of Agriculture as Experimental Farms or required for other than revenue purposes. For a lively description of administrative blundering in farming under bureaucracy you may consult Sir D. M. Wallace's *Egypt and the Egyptian Question*, 1883.

Cost of collection is of the very first importance in revenue matters. Discussion is frequently vitiated by the erroneous assumption that the whole cost of a revenue department is incurred for fiscal purposes. This is seldom true. The Customs generally collect statistics of imports and exports of all kinds, whether liable to duty or not; and if all Customs duties were abolished, some organisation would be needed to secure this important information. The figures of immigrants and emigrants, of the movements of shipping, certain police duties, like the seizure of

prohibited imports, copyright books, etc., quarantine duties, offences against the Merchandise Marks Acts, and similar matters, are often left in the hands of the Customs, and the true cost of the collection of revenue is thus obscured. Similar observations are true of the Excise and Inland Revenue Departments, and even of the Post Office.

During the Napoleonic wars even hair powder was taxed, but the tax was repealed when the expense of getting it in was found to exceed the yield to the Exchequer. Some years ago the charge made by the Post Office for redirecting letters and packets was abolished. It was explained to Parliament that the machinery of accounting for each redirected article as it passed from hand to hand was expensive, and that so many charged articles, especially those sent by the halfpenny post, were refused by the addressees, that their return untaxed to the sender was a further gratuitous burden. A net gain of revenue was promised as a result of the repeal of the charge.

A striking example of unwise taxation was the old salt tax in Italy. Thirty years ago I was compelled to spend some days in Brindisi. British residents advised me to take my bread only in the form of toast. The salt tax was such a burden that bread was usually made with sea-water dipped surreptitiously from the unsavoury harbour. Fines were imposed upon those who were discovered taking water from

the sea. Preventive officers patrolled the beach, knocking off with poles the incrustations of salt crystals evaporated at low tide, and throwing chemicals into the pools to denature the salt. A glance at the map of Italy gives a terrifying idea of the cost of such measures along the seaboard. Add to this the inconvenience and expense of obtaining salt in a regular manner from the comparatively few official depots which were alone allowed to sell it, the limitations upon individual purchases to prevent retailing, and other troublesome regulations, and you have a total of time wasted and money spent in appalling excess of the benefit secured to Government by the salt revenue.

This may suffice as illustrative comment upon the ways in which administrative considerations affect the forms of Revenue. I pass to consider the administration of revenue departments from the point of view of control. Reference has already been made to the control exercised by stamps. When revenue is collected in cash the machinery of collection should be simplified and perfected as much as possible and loopholes for fraud carefully stopped. A valuable check is afforded by comparative statistics. When a falling-off cannot be accounted for it should be localised and examined by expert inspection, and if no other solution is forthcoming a transfer of officers may be tried with advantage. Test inspection intelligently

carried out is indispensable even where no suspicion exists. A fraud upon the revenue, when it comes to light, should always be searchingly inquired into, how small soever it may be, and whether the money is recovered or not. It may under the microscope reveal the existence of a danger against which further precautions may be necessary.

Collectors of revenue should be required to remit promptly and closely to Government the sums which they receive. Apart from the risk of leaving unnecessary balances in their hands it is wasteful to have your funds lying stagnant in a great number of little pools throughout the country, while you are perhaps paying interest upon a temporary overdraft or short loan, which might have been obviated or diminished if the money in the pools had been placed in your central reservoir. Departments which require working balances or till money are often great offenders in this respect. If every Post Office retains in hand a larger sum than it reasonably requires, the cumulative effect is considerable. The tendency of officials to be unduly timorous in this respect is in general very marked. In their anxiety to be on the safe side against emergencies they provide an unnecessarily large margin of safety, and the over-insurance which results is wasteful. The man whose pride is to "take no risks" is often very expensive. "Why have you so large a cash balance?" asks the Inspector. "To-morrow is

market-day," says the Postmaster, "and I may be called upon to cash a large number of Postal Orders." The Inspector turns over the record. "Out of the last twenty market-days," he observes, "you have issued Postal Orders for a larger amount than you paid on eighteen occasions. On the other two days the difference against you did not exceed £5. If you have no better reason to urge you should remit £200 immediately." When experience has driven out fear permanent improvement may be expected.

Accounts and forms prescribed by the Finance Department as necessary and sufficient for recording receipts are frequently supplemented in individual offices by numbers of additional books, forms, and private memoranda. "Why are all these records kept up?" asks the Inspector. "I do it for my own satisfaction," says the beaming official, who thinks an excess of zeal venial if not laudable. It is pointed out to him that excess of labour is excess of cost, and that waste of energy must be repressed. A few searching questions may wake up a lifeless routine and induce it to visualise the facts behind the forms. A good inspector of revenue will set his imagination to work, put himself in the place of the collector, and consider how he could dupe the revenue or be duped by the taxpayer. With specialised and widespread experience he should be fruitful in suggestion for improving the machinery of collection.

To require officials who are responsible for cash to give bond or security is a generally discredited practice. If two men pass the same examination and receive the same salary, but one is employed on clerical work while the other is made a cashier, it is unequal treatment to compel him to pay premiums to a guarantee insurance company without any compensating emoluments. If, on the other hand, you pay special allowances to guaranteed clerks you are paying an insurance against risks which you had better spread and carry direct. Officials who form a mutual society for such insurance may avoid the contribution of profits to a private company, but they are less secure against incompetence, default, and insolvency in their own little society. The fact that in a country like ours responsibility for money usually rests with pensionable officials, who are of some standing and seniority when the amounts are considerable, gives you, as already mentioned, some protection, since fraud will involve a loss of pension rights—to that extent an additional deterrent, or in the last resort a set-off against what you lose. The actuarial value of a man's pension may be many times the amount of his defalcation.

The French Government requires its collectors of revenue to deposit security upon which interest at 3 per cent is allowed, in effect, as M. Leroy-Beaulieu points out, a forced loan of great magnitude, now exceeding 20 millions sterling, at a

low rate of interest. So long as the ranks of the collectors are not depleted Government is not embarrassed by the necessity of returning the money, the newcomer replacing, or more than replacing, what is paid out to his predecessor or his representatives. But apart from the fact that, as already mentioned, Government pays in increased salaries for this form of security, its choice of capable and trustworthy revenue officers is limited by insistence upon ability to deposit the large security required.

To sum up, without going so far as to say that in revenue matters "whate'er is best administered is best," it is important to notice that administrative costs and difficulties play a large part in deciding the merits and demerits of different forms of revenue. A revenue which costs as much to collect as it brings in adds nothing to the resources of government. The expenditure of part of the wealth of the country in this way (unless it is justified by other than fiscal reasons) merely supports a parasitic activity. Both on that ground and because of its useless interference with the taxpayer it is contrary to sound economy.

V

FINANCIAL POLICY AND THE BUDGET

WE come to policy, and especially to the framing of a Budget. By what principles should you be actuated as an administrator anxious to make the best possible use of the national resources? I shall repeat little of what is to be found in the textbooks, not because it is unimportant, but because you can read it at your leisure.

Let us take this from Bacon's Essay *Of Great Place*: "In the discharge of thy place set before thee the best examples; for imitation is a globe of precepts. And after a time set before thee thine own example, and examine thyself strictly whether thou didst not best at first. Neglect not also the examples of those that have carried themselves ill in the same place; not to set off thyself by taxing their memory, but to direct thyself what to avoid." Following this advice, let us make the round of a little gallery of fancy portraits.

Everybody knows the fable of the painter who attempted to produce a picture of exquisite beauty

by a composite method, selecting a beautiful brow from one model, a nose from another, a mouth from a third, and so on, until he had achieved a monstrous incongruity. If I select and combine a number of ugly features you will not expect the result to be either pleasing or lifelike, or imagine that there is a particular original for any one of the types.

The first is labelled The Everlasting No. His policy was to keep a still tongue and a tight fist, to give his negative decisions but not his reasons, to say, "Why can't you leave it alone?" and not to wait for an answer. If it be true that the man who never makes mistakes never makes anything, it is equally true that the man who never makes anything is himself Mistake incarnate. When, in addition, his aim is to promote not-doing and not-making, to lie in cold obstruction, stifling the energies of others and arresting progress, his service to his country is grave disservice. Yet this was esteemed by taxpayers, as they buttoned up their trouser pockets, a strong man. He certainly used strong language, having perhaps heard the dictum of Thiers that a certain ferocity is indispensable to a Minister of Finance. In truth such a minister must be firm and valiant, wise and just; but ferocity is no more an indispensable attribute in him than in a judge of the High Court. As we look at his portrait we remember the words of Burke: "No providence, no sagacity, no power of combination, no comparison,

no judgment. Mere instinct, and that not an instinct of the noblest kind." A well-trained parrot can give you an Everlasting No, and even garnish it with expletives.

The second portrait is The Everlasting Not Yet. It was his boast to have an open mind. The prose vignettes in which Montyon[1] sketched Finance Ministers of France include the story of one who entered office before the Revolution, full of zeal and good intentions. He collected suggestions for reform, and was enthusiastic over each. But he invited a second opinion, which usually asserted its superiority by differing in detail or in principle. Rallying for the moment to this opinion he sought a third, or referred back to the previous author, and so on *ad infinitum*. Always agreeing with the latest opinion but never decided, he settled nothing, and bequeathed to his successor cupboards full of memoranda and counter-memoranda, a host of unsettled questions, nothing achieved. The man we are now considering was wont to say, "If we must have a change let it be as small as possible." He preferred to turn a question rather than to solve it, to patch it up with makeshifts, to tie it up with a bit of string, to establish what he called a *modus vivendi*. He appointed many Committees of Enquiry and Commissions, whose long and costly labours were generally set

[1] *Particularités et observations sur les ministres des finances de France les plus célèbres de 1690 à 1791, par le baron de Montyon.* Paris, 1812.

aside on the lines of his French prototype after reference to other Committees or individuals. St. Augustine confesses that in his unregenerate youth he was accustomed to pray, "O Lord! convert me! But not yet." The subject of our study was often forced to confess himself convinced in principle. But, as Bismarck once blurted out, when you say that you agree to a thing in principle you mean that you have not the slightest intention of carrying it out in practice. Golden opportunities were lost. The cobbler's and tinker's work was always giving way and falling to pieces. The rustic waiting open-mouthed for the river to flow by was not more ludicrous than our paltering type waiting open-minded for the stream of arguments, facts, and new developments to run dry. The outside world understood him to be a paragon of discretion, "very diplomatic." Those who suffered under him and after him could not be found to rise up and call him blessed.

Our next portrait is an antithesis, and its title is Something Must be Done. Unlike the man whose mind was always open but never made up, he closed his mind with a premature snap. When anything went wrong he snatched at an expedient without due consideration of the problem and its causes, and treated the symptoms of the disease instead of dealing with its foundations. His work was built upon the sands and little of it remains. His fussy activity

was mistaken for keenness and energy, and the public judged him charitably as a good man and a busy worker, for whom circumstances had been too hard and to whom fate had been unkind.

We have next The Practical Man, whose motto was to mind his own business and to decide every case on its merits. He had the virtues of his kind, was early at his office and late took rest, eating the bread of carefulness, revelling in countless dossiers, floundering ceaselessly in a quagmire of forms, accounts, papers, and precedents, but with no time to think. "Might we not," asked one of his colleagues, "do well to find out how they solve this problem in neighbouring countries?" "We have quite enough to do," was the tart reply, "to attend to our own affairs, without troubling ourselves about foreign countries, from whom we have nothing to learn." His clear but shallow minutes, his beautiful penmanship, his undoubted assiduity, filled his minor clerks with admiration, and the opinion spread that here at last was a great man. In fact, to use a vivid Americanism, he was so much too small for his place that he "rattled in his boots." In the language of Huxley, the god of his idolatry was rule of thumb, and he regarded science as speculative rubbish. "The able theorist," he said, "is a man for whom I have no use, of whom indeed I have a profound distrust." To decide every case on its merits was with him a mere glorification of the empirical, the merits

usually consisting of the resemblance to decided cases which had happened to come under his notice and been made the narrow basis of unconscious induction. And so he jogged along in a humdrum routine, minding his own business in blinkers so narrow that he would have conducted any commercial establishment to speedy ruin. How unpractical The Practical Man was when it came to the pinch you may see from a portrait limned by the master-hand of Burke, and this time a reality.

In his great speech on American Taxation, when he comes to refer to George Grenville, the author of the ill-starred Stamp Act, who had been his friend in private life, Burke pays a tribute to his masculine understanding, his stout and resolute heart, and his undissipated and unwearied application to business, but goes on to say, "Sir, if such a man fall into errors it must be from defects not intrinsical; they must be rather sought in the particular habits of his life, which though they do not alter the groundwork of character yet tinge it with their own hue. He was bred in a profession. He was bred to the law, which is, in my opinion, one of the first and noblest of human sciences;[1] a science which does more to quicken and invigorate the understanding than all the other kinds of learning put together; but it is not apt, except in persons very happily born, to open

[1] Burke, the son of a solicitor, was himself entered at the Middle Temple, and kept his terms, but was never called to the Bar.

and to liberalise the mind exactly in the same proportion. Passing from that study he did not go very largely into the world but plunged into business ; I mean into the business of office and the limited and fixed methods and forms established there. Much knowledge is to be had undoubtedly in that line, and there is no knowledge which is not valuable. But it may be truly said that men too much conversant in office are rarely minds of remarkable enlargement. The habits of office are apt to give them a turn to think the substance of business not to be much more important than the forms in which it is conducted. These forms are adapted to ordinary occasions ; and therefore persons who are nurtured in office do admirably well as long as things go in their common order : but when the high roads are broken up, and the waters out, when a new and troubled scene is opened, and the file affords no precedent, then it is that a greater knowledge of mankind and a far more extensive comprehension of things is requisite than ever office gave, or than office can ever give." [1]

The next of our portraits is entitled The Magnificent, but the candid call it The Spendthrift and the unfeeling The Bankrupt. The original of this picture believed that Government should spend its money "like a gentleman," by which he meant like a lavish and improvident prodigal. Pretentious and

[1] Speech on American Taxation, April 19, 1774.

costly buildings, parks, and gardens, magnificent roads leading nowhere in particular, unbridled luxury in objects of secondary or tertiary importance, saddled his successors with an empty treasury, a heritage of debt, and with untouched problems of primary necessity from which there was no escape. In modern democracies this type is stifled in its infancy. The taxpayer is up in arms. But in Eastern countries under autocratic government this safeguard is lacking. There are those who say that the popularity of Ismail in Egypt was enhanced rather than undermined by his extravagance. To commit waste upon the inheritance, to play ducks and drakes with the public money, may dazzle the onlookers for a moment like a soaring rocket, but it has the rocket's fate. The diligence required of a Finance Minister is not that he should be as careful of the public money as he is of his own, or even as a prudent man is of his own, but the higher degree of diligence due from a prudent man in dealing with other people's money.

Only one picture more, The Self-seeker, so hideous that I should like to turn its face to the wall, but "to direct thyself what to avoid" it is well to look at it fixedly. Professor Graham Wallas says: "An English cabinet minister once told me that he could separate the statesmen whom he had known into those whose vision of the future consisted of themselves and their 'careers,' and those

whose vision consisted of the results on their fellow-men of the policy for which they were working." [1] The same thing might be said of permanent administrators; but in neither case is there a pure dichotomy. The shades of self-seeking may vary from nothing up to everything, and may be combined with a greater or less strain of public spirit. But when this deadly virus is present in the smallest degree whatever National Economy is endangered. Our particular subject was eaten up by this horrible worm of "How will it affect me?" The general verdict upon him is that he never lifted a finger to help anybody but himself, fawning upon those from whom he had something to hope, arrogant to those from whom he had nothing to fear, taking no real interest in the country, not wishing to know the people or anything about them, but anxious merely to "know the right people." Whatever else a financier may know or not know, the first essential is that he should know his own people. To shut out the light, to close his eyes, not even to wish to see the patient for whom he prescribes or the body politic upon which he operates, is dangerous madness. In its less acute form the malady is still serious. The crabbing of a man of whose abilities you are jealous, the pecking of the ugly duckling, may gravely mutilate the efficiency of the public service.

[1] *The Great Society*, London, 1914, p. 163 n.

It is time to emerge from this museum of morbid pathology. The half-dozen types are but a few selected specimens. What may we learn from them? That the sovereign need is knowledge, knowledge, knowledge, at the back of action, wise, prompt, and energetic. Where there is no knowledge energy may merely run amok or be as sterile as the activity of the squirrel in a wheel, or paralysed into nerveless, halting, irresolute temporising. Where there is no energy the fruits of the tree of knowledge lie unused and rotting upon the ground. To give knowledge its effect we must organise it, make it scientific, fit the parts of the machine together, and make it work.

What sort of knowledge do you need to frame your Budget? "In order to comprehend the effects of taxation," says Bastable, "it is indispensable to have full statistics as to the distribution of wealth among classes and among localities,"[1] to which may be added that it is equally indispensable to understand them when you get them. But we should be puzzled to name a country in which such statistics have been compiled. Anyhow, we must do the best we can in this direction. You must know the economic capacity of your people before you can frame any sound opinion of what they can afford to spend, either individually or collectively. Your resources, actual and potential, impose a limit within

[1] *Public Finance*, 3rd ed., 1903, p. 11.

which the needs of communities as of individuals must be brought. With one eye upon this limit you proceed to consider your needs. The pages of philosophers refer now and then to a natural order of wants, but little has been done to establish such an order even for individuals and still less for governments. A germ of the subject is found in the text, "Is not the life more than meat, and the body than raiment?" This does not carry us very far, but far enough to perceive that the lives of the people are a primordial concern, and that the recently stimulated interest in infant mortality is a condemnation of past indifference. Consider the mere economic waste involved in the fact that of every three children born in Egypt to-day only two survive as long as twelve months.

The wants of a country will develop with its civilisation, which J. S. Mill defined as "progressive desire." In a savage state desires are few and simple. As it advances, what were formerly luxuries become necessaries, which "the custom of the country," in the language of Adam Smith,[1] "renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose, very comfortably, though they had no linen. But in the present times, through the greater part of Europe, a credit-

[1] *Wealth of Nations*, bk. v, ch. ii. pt. ii. art. iv.

able day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a necessary of life in England. The poorest creditable person of either sex would be ashamed to appear in public without them. In Scotland, custom has rendered them a necessary of life to the lowest order of men ; but not to the same order of women, who may, without any discredit, walk about barefooted. In France, they are necessaries neither to men nor to women ; the lowest rank of both sexes appearing there publicly, without any discredit, sometimes in wooden shoes, and sometimes barefooted."[1] Precisely similar is the growth of what are considered to be necessary government functions. In the Government of Zululand you do not concern yourself about schools and colleges, art galleries and museums, which it would be "indecent" for any creditable Government in Europe to be without. When Voltaire said that the superfluous is the truly necessary, he meant that if we are content merely to gratify the primitive needs we do not rise above primitive barbarism.

Self-preservation, and all that it includes, comes

[1] In Mexico pearls and diamonds used to be at least as much necessaries of life as shoes and stockings, according to the anonymous author of *Essays on Social Subjects*, 2nd series, 1865, p. 123.

undoubtedly in the forefront of national necessities, security from the enemy without and within the gates. I will not detain you by repeating Montesquieu's fable of the people who relapsed into poverty and anarchy because contracts were not observed or enforced and the cement of commercial relations fell away. Arms, Justice, Police, and Public Health we may accept without question as claimants upon Government attention. The order of priority of other claimants must depend largely upon particular considerations, the degree of civilisation, the special characteristics or peculiar requirements, and the resources of the community. In one country irrigation may take a high place. In another it may come very low down the list. But in every country at a given period there are greater or less degrees of urgency in the demands upon Government. The delicacy of adjustment lies in the fact that we have to aim at maximum utility. There may be exceptional cases of "all in all or not at all," but, in general, with each dose of satisfaction doled out to a particular claimant the urgency of his claims becomes less acute, until we reach a point when, long before he is satiated, it is economical to give some relief to the next on the list, and so on successively.

Easy finance will not look beyond the sum total of the demands of departments for the needs of the year. Wise Government takes a wider and longer

view. Let us assume that, having satisfied yourself that the estimates of expenditure cannot be reduced without injury by eliminating waste, you have decided to provide certain sums for certain purposes, new and old. How is the necessary revenue to be raised? Possibly the estimated revenue on the existing basis of taxation may suffice, and then easy finance will leave things alone. But it may well be that the existing basis of taxation is unsatisfactory, and the need for reform may be strong enough to override the presumption against change. Take a look round at your whole revenue system. Complaints may be rife that this or that particular tax is unequal in its incidence.

> Whoe'er expects a perfect tax to see,
> Expects what ne'er has been nor e'er will be.

A class which bears more than its share under one head may bear less on another. What is to be aimed at is fairness on the whole. To secure it on each item is impossible.

Upon the question, What is fairness in taxation? I would again refer you to the textbooks. The great criterion of what may be demanded from individuals for the common good is ability to pay, coupled with the ideal of minimum disutility. Just as you want the maximum utility in expenditure so you should aim at the minimum disutility in taxation.[1]

[1] Prof. J. S. Nicholson, *Political Economy*, London, 1909, iii. 378-79.

It is not practicable to graduate any but direct taxation, like taxes on income or property. On the other hand, taxation under certain heads may, in its nature, fall only upon the well-to-do. It is now generally agreed that the higher a taxpayer rises in the scale of wealth the greater should be the percentage of his means contributed to the State. Except in the direst necessity, like a crucial war, taxation should not impair the sources of revenue, or sacrifice future to present finance. It is bad policy to kill the goose that lays the golden eggs—unless the goose is one of those depraved birds which eat their own eggs, in which case, if its eggs cannot be trapped, killing is all it is fit for.

Given a tolerable idea of the wealth of the country, of its distribution by classes and localities, and a careful estimate of the incidence of taxation upon the various ranks of society, you are able to form an opinion of the fairness of existing pressure. Where it is unduly heavy you will endeavour to rectify the inequality. Taxation may conceivably be so high, on the whole, that it is grinding, oppressive, striking at the roots of energy, impoverishing the country and lowering the standard of living. Even where this is not the case it may be unjustly distributed, and finally it may be so ill-conceived or badly administered that it is wasteful, costing the country, one way and another, a great deal more than it brings in to the Exchequer.

All these defects call for reform. The principle stated by Arthur Young, which still finds some advocates, that the ideal system of taxation presses lightly upon several points and heavily on none, has no practical value. "Heavily on none" is excellent if the needs of Government can be met; but a multitude of petty taxes is, in the final analysis, unduly irritating, burdensome, and expensive, and a society would be strangely constituted in which a revenue so raised did not overtax the poorer classes.

What is the burden of taxation? Not the whole revenue of the State, which includes many receipts from other sources. Not the whole yield of taxation in the gross and before deducting costs of collection, for some taxation so called, like the land tax, is, as we have already seen, no burden upon many (if not all) of those who now pay it. Suppose I pay £100 a year to Government, am I to regard this as my burden? Only by an abuse of language. In return I receive from the State, directly and indirectly, services which are probably so valuable to me that in a country like England few citizens, after providing for what is strictly necessary, spend their free income upon objects of greater social utility than those for which the State revenue is intended. If I buy a loaf from the baker I do not complain that the payment is a burden. I get my money's worth, and therefore make the

exchange cheerfully, preferring the loaf to the money. In return for my taxes I get the services of the State, the Army and Navy, the Education Department, and the other organs of government, without all which income, property, perhaps life itself, might be denied me. The crucial test for the critic of Government activity is whether the money taken from taxpayers by the State to be expended for their benefit is more wisely expended, in the broadest sense, than if it had been left with the taxpayer. In countries where soldiers are conscripted for the supreme need of National Defence, the right of the State to call up annually such income as it really needs for the general benefit can hardly provoke question. Where there is on the whole a clear gain in utility, the extension of State functions or State action needs no further defence.

You may of course say, "What I am compelled to pay is no less a burden because I get something in return." In a sense, if you like, the burden is a burden, but not in a sense which justifies complaint or appeal for compassion if you get an adequate return.

How far is Finance to be regarded as an engine of police or an instrument for advancing social equality? Proposals are sometimes made to tax out of existence what are regarded as nuisances, and if no better mode of abating them can be found, taxation may be desirable. If the tax were completely successful

it would yield no revenue, and would offer no fiscal attraction to a Minister of Finance. It may, if partially successful, repress the general use of a dangerous commodity—like a very heavy duty upon morphia or cocaine—or may lessen the eyesore of public advertisements, and may at the same time yield some revenue. Even if the importation or consumption of a drug like hashish were strictly prohibited, the Finance Department must be charged through the Customs and the Coast Guard with the repression of smuggling. The various departments of Government are, in fact, like the fingers of a hand, and must help each other when required. There is no general presumption in favour of keeping Finance in a watertight compartment. The arguments against using the taxing power to correct the unequal distribution of wealth by taking away from the rich to benefit the poor are discussed by Mill. To strike off the heads of the tall poppies is not in itself a wise economic policy. The conclusion at which Mill arrives in condemnation of the general principle is too absolute to be defended where the taxation is justified not on vindictive grounds or on abstract principles of social justice but on the concrete ground of a net gain of social utility. That it can be so justified in many cases hardly admits of a doubt.

The maxim of "taxation for revenue only" is one which we never have seen, and are less and less likely to see, strictly applied. Into the controversy

between Free Trade and Unfree Trade I do not purpose to enter. If it is argued, on one side, that under Free Trade you will have a greater total of national wealth, and, on the other, objected that this is not the aim of your national policy, but that your ideal can only be attained by forgoing some material advantage, the question to be settled is whether you are paying too dear for your whistle or whether it is more serviceable to you than its cost, a question upon which economics and statistics cast a powerful light. I wish rather to confine attention to practical administrative questions than to dogmatise about the economic side of financial policy.

Assuming, then, that it is decided to increase taxation, that the increase will not be unduly onerous or wasting in its effects, and that you have before you alternative proposals, all of them consonant with fairness, what practical considerations are to be borne in mind? Jevons enumerates ten reasons why a tax may be bad—"because it is subject to

1. Fraudulent evasion.
2. Non-fraudulent evasion.
3. Costliness of collection, as regards the Government.
4. Costliness to the public in money.
5. Loss of time and trouble on the part of the public.
6. Interference with home trade.
7. Interference with foreign trade.

8. Unpopularity.
9. Incidental objections.
10. Inadequacy of returns." [1]

"Taxation," he adds, "is not a subject in which principle alone can guide us; though a high place must be given to principle, all the circumstances must be taken into account." [2]

Except in direct taxation the incidence of new taxes is often difficult to estimate. A knowledge of family budgets is one of the first requisites for judging the effect of customs and excise duties; a knowledge of the habits of the people and the methods and practices of traders or others affected by stamp duties is needed before you can estimate the fiscal and non-fiscal results of stamp duties, and so on. Each problem must be attacked separately. Economics and statistics are sharp dissecting tools which, properly applied, will go a long way in leading you to a conclusion. Knowledge may first step in and try her hand at a solution, but Wisdom must finally decide, and it may sometimes happen that in her judgment the imponderables prevail.

For the technique of the Budget you may refer to the excellent work of M. René Stourm.[3] Hold fast to two principles—Annuality and Universality. The revolving year gives you a unit of time in which the produce of the land and labour of the country

[1] *Principles of Economics*, 1905, p. 211. [2] *Id.* p. 213.
[3] *Le Budget*, sixième édition, Paris, 1909.

comes full circle. A shorter period would give results affected by greater fluctuations. A longer period not only adds to the difficulty of prevision, but in constitutional countries limits the control of the popular representatives. For this reason the German Reichstag rejected Bismarck's proposal for biennial budgets. The blurring over of the line between annual budgets by heel-taps, the carrying over of unexpended credits from one year to another, are practices to be avoided.

By the universality of the Budget is meant the bringing of all revenue and all expenditure into one general Budget. The old device of an ordinary and an extraordinary Budget, the one providing for normal recurring expenditure and the other for exceptional expenditure which it is hoped will not recur, is now generally discredited. It survives in Russia, and in war time is not likely to be abandoned. But in times of peace the exceptional is always with us. Nothing is gained and something is lost by the failure to present the estimates of the year "in one mass and in one account." In time of war our device of a Vote of Credit offers an alternative open to discussion to an extraordinary Budget as a method of dealing with really extraordinary emergencies.

A word may be added as to Grants in Aid. When you spend your money directly through Government agents you are responsible for seeing that you

get your money's worth. But it may be desirable to subsidise local authorities, learned societies, or private institutions by a donation or subscription over the expenditure of which you have no direct control. In all such cases you should reserve the right to satisfy yourself *ex post facto* that the grant has been wisely used and that its continuance is justified by its efficiency before renewing it. Mr. Sidney Webb's *Grants in Aid*[1] will make clear to you the great importance of this subject.

What shall I say more? A hundred lectures would hardly suffice to examine exhaustively the subject of the Budget, even in its administrative aspects. I have contented myself with indicating the spirit in which it should be framed. Let me add a word as to the spirit in which it should be received. The Budget looms very large in sight of the average citizen. Budget night is for him the occasion of a great and interesting speech in the House of Commons, when proposals for new expenditure are justified by disclosing the outline of new policy. But his main interest is centred in the questions, What changes are there to be in taxation? And how will they affect me? Yet a Budget, properly considered, is not a mere matter of how new revenue is to be raised. It is a balance-sheet of estimated revenue and expenditure, and "good finance," according to Mr. Gladstone, "consists more

[1] *Grants in Aid: a Criticism and a Proposal*, 1911.

in the spending than in the collecting of revenue."[1] Why the revenue received differs from the revenue expected, why the expenditure actually incurred diverges from the estimate, whether the expenditure can be reduced without impairing efficiency are questions of the highest importance. Is an extra penny put on the income tax in times of peace? Everybody is interested. Can the extra penny be avoided by an economy of two millions? Who knows? And yet, as Mr. Taft says, the question affects the interest of every person living within the jurisdiction of the country. If the evolution of financial history teaches us anything, it is that the needs of Government have increased, are increasing, and are likely to increase. The problems of the future of growing insistence are how far and in what form are the resources of the country to be absorbed by Government, to what purposes and in what manner can these resources be best applied in the interests of National Economy? The answers will not come from earthworms burrowing in their material with no power of elevating themselves above it, nor from philosophers in the clouds who see the map of the country but are too remote to see its workers. Knowledge of detail must be organised, systematised, shot through with the organic filaments of science and philosophy before the constructive intellect is sufficiently illuminated to find or build the most excellent way.

[1] Sir A. West, *Recollections of Mr. Gladstone*, ii. 309.

VI

PUBLIC DEBT AND HAUTE FINANCE

WE come now to the melancholy subject of debt and

> that eternal lack of pence
> That vexes public men.

The public debts of the Great Powers of Europe will vex both public and private men for many years to come, though high authorities seek to comfort us by assurances that a National Debt, so long as it is held within the country, is not a national burden; that whether we meet our necessary national requirements by creating debt or by increasing taxation is, in the long run, all the same to posterity; and even that an increase of National Debt is a blessing in disguise, a safe security for home investors, a socialisation of national capital, and a stimulus to increased productiveness and thrift on the part of the taxpayer.

One of our leading writers on finance holds that a foreign loan for other than reproductive purposes "leaves both the nation and the individual per-

manently poorer, and with a continuous burden to meet in the shape of interest and sinking fund until the loan has been redeemed. Loans raised at home have an essentially different effect. The interest on them is raised from the taxpayers and paid back to the taxpayers, and the nation, as a whole, is none the poorer."[1] From *The Economist* of July 29, 1916, I take the following: "The interest on our War debt should not be subtracted from the amount that we were able to save before the War. It will be gathered from the taxpayers and paid to the holders of our debt in so far as our debt is raised at home, and the cost of collection and distribution of this sum will be the only charge on the income of the nation as a whole."

Another well-known authority, one of the editors of *The Statist*, says: "The effect of the great debt the country was now creating would merely be to transfer spending power from the whole community to the people who subscribed the loans. . . . Imagine the amount of new capital that would be available after the War when instead of 5 millions of Consol dividends they might have quarterly nearly 50 millions of Government interest. Beyond that there would be a sinking fund for the redemption of our huge debt. It would be impossible to allow a debt of from 3000 millions to 4000 millions to be unredeemed. They must have a big sinking

[1] Hartley Withers, *International Finance*, 1916, p. 174.

fund, and that sinking fund would be the contribution of the nation in its collective capacity to the capital of the country." [1]

If all this is true, the philosopher's stone of finance is at your hand. You may raise new loans within the country with a light heart, and need have little anxiety about the rate of interest or the extinction of debt, old or new.

These arguments tacitly assume that if Government had not been compelled to make the expenditure which has driven it into the loan market, the home investor would have derived no profit from his capital. They regard the charge upon the taxpayer to meet the interest on the new debt as compensated by the gain to the fundholder, or tax-eater as Cobbett called him. But the fundholder may gain little or nothing in money income from investing his capital in Government debt instead of in something else. He may even from patriotic motives deliberately incur a loss by diverting his old capital, or directing his new capital, into this particular channel. If we assume that every citizen is equally wealthy, equally taxed, and subscribes equally to a Government loan, the dividend which he receives will be precisely counterbalanced by his share of the increased charge for interest, or more than counterbalanced if a charge is also made

[1] Sir G. Paish, "War Finance," in *Journal of the Royal Statistical Society*, May 1916, pp. 298-99.

for management and sinking fund or amortisation of the loan. So far as his annual balance-sheet is concerned, he is no better off than if Government had commandeered the capital he subscribed, with a promise of ultimate restoration, but without interest. He will have lost the use of his capital without any monetary compensation. What he really gets in return is the service which Government renders to him and the country with the money which it has borrowed.

Here we get to the true criterion. If the loan is for other than reproductive purposes Mr. Withers admits that "it leaves both the nation and the individual permanently poorer," provided it is raised abroad. But a domestic loan for the same purposes will have the same result. A foreign loan has, on the one hand, the inconvenience attendant upon sending coupons and dividend warrants to a foreign creditor, and may have some slight effect upon the foreign exchanges. But on the other hand must be set off the original influence and convenience of the influx of capital from abroad, avoiding the disturbance of the home money market, and freeing a corresponding amount of home capital to go about its business in other ways, possibly even for counterbalancing investment abroad, instead of being called up by the State.

If a National Debt is not a national burden so long as the dividends are distributed within the

country, it is difficult to see how taxation can be a charge on the national income so long as its proceeds are spent within the country, or how the nation can become permanently poorer by extravagance upon its home services. The fact is that geography has very little to do with these questions. The point to be looked to is, what does the taxpayer get for his money? In the case of debt, what use was made of the principal upon which he is required to pay interest?

The argument that borrowing casts no greater burden upon posterity than taxation is as specious as it is dangerous. Government is suddenly obliged to absorb an increased amount of the capital of the country. It is maintained that to take it all at once imposes upon the country a load mathematically equal to spreading it over a term of years. This mechanical view, that it is a mere matter of distribution in time, takes no account of the psychological effect of taxation and its reactions. Increased taxation within limits may stimulate frugality, may even involve pinch and privation, and may be an incentive to greater energy in production. A spring reacts the more strongly as the pressure upon it increases, provided always that we do not break the spring. It would indeed be deplorable if the taxpayer believed that present sacrifice and extra effort will not make things easier for those who come after him, that a spurt now will so take it out of him

that the race will be just as long in the end, and that it is unnecessarily cruel to bear heavily upon him now by taxation when it would have done equally well to spread the burden over a number of years.

The last argument that a National Debt is a blessing in disguise is a sophistry so often advanced and refuted, especially in the first half of the last century, that it is sufficient to refer you to the histories of economic theory. The same crisis which calls for a great increase of debt may stir a new spirit within a nation, and this renaissance may be a blessing without disguise. But neither the spirit nor the strength born of it is the result of debt. Imagine a profligate tyrant wasting the national resources by senseless, selfish extravagance, or by wanton and unsuccessful aggression upon a peaceful neighbour, piling up an internal debt which has left no wrack of national benefit. By what reasons will you persuade the taxpayer that the debt is something for which he should be thankful? If a domestic National Debt has all the advantages claimed for it, the short cut to Utopia is to go on increasing it at whatever rate of interest is sufficient to attract new lenders, which is absurd.

In discussing whether a loan is or is not reproductive, it is well to ask reproductive of what? For Governments as for individuals it is good business to borrow for purposes which yield a clear, immediate,

and permanent financial profit, in which case the effect of the loan is not to burden but to relieve, not to impoverish but to enrich. It is seldom, however, that such clear cases occur in practice as a justification for increasing National Debt. It may be that large schemes of land reclamation or afforestation may hold out an excellent prospect of proving in the long run successful operations, even from the purely commercial aspect. Or again, Government investment may ultimately promote public welfare so effectually that the revenue of Government may indirectly be appreciably enhanced. But the end and aim of economy is to maximise utility and not wealth. National expenditure, whether out of taxes or out of loans, is justified by a clear gain of utility, securing for the community something which it prizes more than the wealth by which it is purchased. If you spend a round sum for a surgical operation which saves your life, you will hardly be pleased with the suggestion that the expenditure was not "reproductive." All that a man hath will he give for his life; and where honour is dearer than life, nations, like individuals, will deem wealth well lost in safeguarding their existence or keeping their honour untarnished. In such extremes the "nicely-calculated less or more" is very little considered.

Where, however, the borrowing is facultative, you should remember that the utility of wealth varies with its abundance. An extra sovereign has great utility

for a beggar but little for a millionaire. It follows that you are not necessarily justified in embarking upon new expenditure, either by taxation or by borrowing, merely on the ground that there will be an undoubted gross return in national welfare. The state of the country and its national finances may make the amount involved so valuable to you for other purposes that the disutility of the cost may outweigh the utility of the return. The vital juices of the body politic must not be exhausted by spending or borrowing beyond what it is able to secrete. This limit is relative to the society concerned. Many writers consider that not more than one-sixth or one-seventh of the national income of a country can be absorbed by Government (central and local) without seriously impairing the development of wealth. Such assertions are worth very little. The question, What does Government give back? is vital. A tenth of the national income might be an almost impossible demand to make of a very poor community, two-tenths might be relatively light in a very wealthy country which has plenty to spare. When the standard of living is lowered the danger-point has been reached or passed.

A word of warning may be useful as regards borrowing to acquire or extend State monopolies. The purely commercial factors may not be all-important. They may not even dominate the decision. But so far as they go, it is important to

remember that the so-called profit may involve an element of taxation or compulsory contribution through price if your tariff rates now or in the future are higher than the rates which would have been charged by private enterprise for an equally good service. In all cases where the gain to the revenue is problematical, you must consider not only whether you can afford the expense and whether it is "worth while," but whether it is the "best worth while." Additional debt, in so far as it involves additional net charge upon future revenue, weakens your credit and your power to borrow at a low rate in the future. An expansion of public debt, like an expansion of private credit, tends to increase prices. Abnormal situations may require exceptional treatment, but in general it is wise to carry taxation as far as it can safely go before spreading charges over future years. "Keep out of debt," "Keep down your debt," are wise ideals. To borrow for purposes which are unproductive of revenue, or whose utility is so evanescent that future generations will have to support an interest charge without any benefit from the loan, is to impair the situation of posterity, which will have its own burdens to bear and ought not to be weighed down by the dead hand of improvident ancestors. Remember that a debt charge cannot be cut down in bad times. When you are in urgent need of retrenchment, your freedom of action is circumscribed by fixed charges of this

kind. Finally, large Government borrowings, by increasing the cost of capital needed for private enterprise, and by creating a large class of *rentiers* whose dividends enable them, if they so please, to live in idleness, militate against the maximising of national resources and tend to diminish the share of the more active agents in production.

If a big debt is administratively a bad thing, its reduction is an administrative virtue. It may be called for in common fairness, as when you borrow to purchase or extend a telephone or railway system. As time goes on, the material purchased out of the loan can no longer be repaired, but needs to be scrapped and renewed. If the loan has not by this time been extinguished, the taxpayer of the future will be paying interest upon the cost of plant which no longer exists. In all such cases a sinking fund should be set up to wipe out the principal when the life of the plant has come to an end. Sales of Government land or other national capital should always be carried to a sinking fund. Otherwise the present will profit at the expense of the future. Windfalls, such as escheated estates and surpluses on the year's working, are naturally added to the systematic provision made for reducing the permanent debt. If, however, in spite of your wholesome horror of new debt, you are unable to maintain your sinking fund without borrowing, it is futile to borrow with one hand to pay back with another. When the

only alternative to new borrowing is to suspend the sinking fund in part or in whole, you may face criticism with confidence.

A special reserve fund for such a purpose as to guarantee the convertibility of a Government note issue needs no explanation, but the existence of a general reserve fund side by side with a national debt may appear anomalous. Where the credit of Government is very good, its freedom of borrowing unshackled, and its power to raise promptly a considerable loan is undoubted, such a reserve is seldom necessary. Apart, however, from a war-chest, circumstances may make it very desirable that Government should have liquid resources immediately available to meet an urgent necessity when experience shows that it may at any moment be confronted with sudden calamity such as volcanic eruption, earthquake, drought, famine, flood, pestilence, or hurricane. The example which most readily occurs to us is that of Egypt, whose prosperity is bound up with the flood of the Nile. A bad Nile may mean widespread barrenness, a much-reduced Government revenue, expensive relief to avoid starvation, and difficulty in meeting the claims of foreign creditors. A very high flood threatening the sweeping away of river banks, villages, crops, cattle, and even inhabitants, is also to be feared. In the past a new loan required the assent of the Turkish Government, which it was not practical politics to seek. A reserve fund was there-

fore maintained as a form of insurance. Thanks to this fund, the Government was able to weather without extraneous assistance the crisis of 1913, when it encountered the lowest Nile ever recorded—a disaster attenuated but not completely counteracted by such great works as the Assuan dam.

Floating or temporary debt is usually debt which Government hopes to extinguish before it becomes necessary to crystallise it into an addition to the permanent debt. The British Income Tax is not—except at the source—collected until the last quarter of the financial year. In agricultural countries Governments find it expedient to defer the collection of the bulk of their taxation until after the harvest. It follows that in the early months of the year expenditure outruns the revenue, and Government then resorts to temporary borrowing, which it discharges towards the end of the financial year. As it is usually able to borrow much more cheaply than the private citizen, such expedients are, on the whole, of great national convenience. It may, however, happen in emergencies that Government is driven by stress of circumstances to go on adding to its temporary debt by short tacks of borrowing until the amount of floating debt is so large, and the prospect of its early redemption so unfavourable, that a suitable moment must be sought for funding part or whole of the temporary debt into a permanent loan. If the debt is one which Government expects to be able to pay

off in a short time, say three, five, or seven years, it may issue short-term securities like Exchequer Bonds. If it is hoped to pay off the debt in a still shorter time, say within the year, Treasury Bills for three or six months are suitable. If the amount is comparatively small and the period very short, an overdraft at the bank may be arranged. I need not detain you by an account of the various forms of floating debt. You will find in the *Life of Walter Bagehot* the story of his suggestion of the idea of Treasury Bills, the opposition of the Treasury to the idea, its ultimate adoption and triumph. Treasury Bills are the most successful device yet discovered for floating debt of short currency. Even Consols fluctuate in value. Within a comparatively brief period they have lost about half their value. But a Treasury Bill or promise of the British Government to pay a sum certain at a fixed date a few months hence in return for an immediate advance of a smaller amount is, humanly speaking, risk-free. The short currency of the Bill is an added inducement to the investor who dislikes tying up his money inconveniently, and the Bill normally appreciates in value from day to day until maturity. By inviting tenders for such Bills, Government gets the best market price for them. The necessity of renewing them from time to time gives some extra trouble, and is attended with some uncertainty owing to the fluctuations of the Money Market, but these are comparatively insignificant drawbacks.

Professor Bastable observes that: "As a general principle of finance it is unquestionable that the floating debt should be kept within the narrowest limits possible. . . . A growth of floating charges is at best a mark of weakness in the treatment of the State liabilities. . . . The great evil of a floating debt is its uncertainty. To be open to the risk of a sudden demand for payment is to be in the position of a banker without the securities with which he provides himself; and it is precisely in times of commercial difficulties that the call is most likely to be made." He adds that "it might indeed be suggested that the floating obligations should never exceed a year's interest on the funded debt, but when the latter is very small this rule could hardly be applied, and that of keeping the temporary charges under one-fourth of the annual revenue might be substituted." [1] We need not suppose that this is a condemnation of present financial policy. *Inter arma silent leges*, and before a state of war the financial philosopher must bow. But in any event, a mechanical limitation of this kind, or the belief that a growth of floating charges is a mark of weakness, is of doubtful validity.

The task of seeing that you have in hand sufficient funds to meet your expenditure from day to day is facilitated by centralising your payments in the hands of a Paymaster-General, or, if the country is very large, of District Treasuries, as in India, and of

[1] *Public Finance*, 3rd edition, 1903, pp. 694-95.

keeping your paying centres in adequate funds for the purpose. To pack your funds into watertight compartments is bad economy. Separate accounts are one thing and separate funds another, as you may see on reflecting upon the position of the banker who has a large number of separate accounts but pools his money into one fund. Keep all your funds in one purse. How it should radiate from that central source is a matter of formal financial administration upon which you will find ample information in the "Report of the American Commission on Efficiency and Economy,"[1] and especially in the great library of financial literature issued by the American Monetary Commission.

The relations of Government to banking and currency questions can only be glanced at. To provide the country with sound currency is the duty and high prerogative of Government, and without going so far as to endorse the theory of Macleod that Credit is Currency, it is undoubted that a *laissez-faire* policy of unregulated credit would be fraught with danger to the community. The note-issue, if not in Government hands, must be under strict Government control. Before the War our smallest note south of the Tweed was for £5. The restrictions upon issue were as inelastic as cast-iron, and as ancient as 1844. The criticisms of Ernest Seyd, the proposals of Mr. Goschen, the practice of other

[1] *The Need for a National Budget*, Washington, 1912.

countries failed to shake us out of the rut. In this respect, as in others, the War has stirred new ideas. The great question whether the gold standard is now hopelessly antiquated, whether as a measure of value it is not discredited by expanding and contracting to an alarming extent with widespread injury to the community, and whether, by international agreement, an index-number should be used to compensate its variations, is exciting serious attention, especially in the United States. You may refer to the writings of Professor Irving Fisher to appreciate the significance and the actuality of this problem. In questions of currency and credit we approach very near to pure economic theory, but a thorough knowledge of history and a fair acquaintance with business practice are essential concomitants of sanity in these matters. You may remember that at the head of Comte's ideal Government was a triumvirate of bankers, bankers being placed by their occupation in a favourable situation for observing the movements of the great wheel of commerce. To fail to obtain the opinions of the business community, representative of banking, city, and Stock Exchange experience, before carrying out measures which affect them, and through them the country at large, is unthinkable; but it is well, indeed, when you are able to weigh their opinions and arguments (by no means unanimous) in the scale of an enlightened and unbiassed judgment, and to distinguish between the view which looks to the

ripples and the waves and the view which takes account of the slow but inexorable tides. High finance, though it has a theatrical glamour from the magnitude of its operations, rests upon the same simple foundations of organised common sense as smaller business. Public credit does not differ in theory from private credit. There is no esoteric mystery about it. Yet the wayfaring man, ready with an opinion upon political questions of great difficulty and complexity, veils his eyes before the problems of public finance which closely affect him, as though they were beyond his intelligence and must be left to experts to decide.

These lectures have been mainly concerned with elementary notions of financial administration in general, but I will ask you, in conclusion, to consider briefly the financial outlook, the coming problems of national economy. The French Minister of Finance, in a speech to the Senate on the 15th September last, said: "The Finance Minister after the War will have very heavy burdens. He will have a task almost as difficult as that of the Minister who holds office during the War." The task of clearing up, even after a successful war, is very expensive. War pensions and war debt will, as M. Ribot points out, be heavy charges. Sir Robert Giffen was seldom able to conceal his impatience when a few years ago people spoke of "bloated armaments" and "oppressive" taxation for military

and naval purposes. He maintained that such language was a mere survival of political complaint after the struggle with Napoleon, that it argued an absence of any sense of proportion between our financial strength, our needs, and our burden. In his somewhat whimsical way he once told me that five minutes' extra work every day throughout the country would pay for the Army and Navy combined. Time will show on what scale our future measures of defence will be deemed necessary. The arts of peace threaten, perhaps, further inroads upon Government expenditure than the arts of war. Already in 1912 Sir O. Lodge was writing: "Our National Government is for all good purposes miserably poor. I fear there is sad waste somewhere, and that before the taxes can be judiciously raised the sources of waste must be discovered and checked. You have fine public servants who are trying to do their best with an ancient and very cumbrous and over-centralised machine; much revenue has to be spent in various unprofitable ways, wars and other, but in every good and noble direction of expenditure the country is miserably poor. Where it is economical it should be lavish, and where it is lavish it should be economical. That is an exaggeration, but there is a kind of truth underlying it. Our national economy in higher education is having disastrous results, it is a real danger to the Nation. While other nations

are investing millions of public money on higher education and research, we prefer to keep the money in our pockets in order to spend it privately, and the result is that while the State is poor the individual is rich." [1]

Look at it as we may, tenderness for the taxpayer's pocket becomes by imperious necessity less and less marked. The necessary burden must be borne. Bad finance may aggravate it. The best finance cannot by any ingenuity of readjustment conjure it away. The strength of the country to bear it is variously estimated. In his *Financial Chapters of the War*,[2] Mr. A. D. Noyes says that nothing has occurred to drive England's commerce from the seas, that however much her accumulated store of capital may be reduced by the prodigious waste of war the proportionate reductions in the case of her European competitors will have been vastly greater, and that the United States—with the developing of its own resources certain to absorb the greater part of its own accruing capital—cannot for years to come be fitted economically for the world's central money market. He adds that England's primacy has been an outgrowth of her financial system's long unchallenged soundness, of her position as the workshop for other nations, of the fact that her productive facilities and her accumulated capital have for centuries exceeded her

[1] *Modern Problems*, p. 168. [2] New York, 1916, p. 212.

home requirements, of her free trade with all the outside world, and of the world-wide predominance of her merchant fleet.

The wealth of Government is conditioned by the wealth of the nation. The wealth of the nation depends upon natural resources and upon mental, moral, and physical activities, which are, to say the least, not likely to be slackened after it has passed through the fire of its present trial. However laudable it may be for Government to aspire to be a providence to the country, we must remember that it has neither the omniscience nor the other attributes of Providence. What it can do is to see that it is a wise and faithful steward in the management of the national economy. And what the average citizen can do is, by taking an intelligent interest in public administration, to stimulate and encourage all that makes for the most efficient use of our national resources. To repeat the phrase of my first lecture, the more we all know about National Economy, the better our National Economy will be.

How we are to know more of National Economy is another of the problems of the future. Contrast the teaching of our old Universities with those of America or Germany. In the Middle Ages a Professor of Medicine dealt single-handed with medical studies and delivered a few lectures every term upon such subjects as the humours of the body. A medical student to-day has lectures on

Anatomy, Physiology, Materia Medica, Chemistry, Botany, Biology, Gynaecology, and the rest. In other countries a whole Faculty, embracing a dozen professors, is at work upon the Theory, History, and Literature of Economics, Statistics, Banking, Currency, Finance, Political Science, Administration, Accountancy, and the rest, and so gets down below the broad generalities to the vitalising of knowledge. In too many of our centres of learning all this is left to a solitary Professor of Political Economy. The University of London is honourably distinguished in its organisation of the study of social sciences, and bids fair to stand in the front rank in this respect.

Early in the last century a French writer, who ought to have known better, published a little book entitled *Political Economy in one Lesson.* Do not suppose that six lectures like these can teach you much upon a subject so vast as National Economy. It is enough for my present object if they arouse your interest. Their purpose, like that of the *hors d'œuvre*, is not to satisfy appetite but to stimulate it.

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